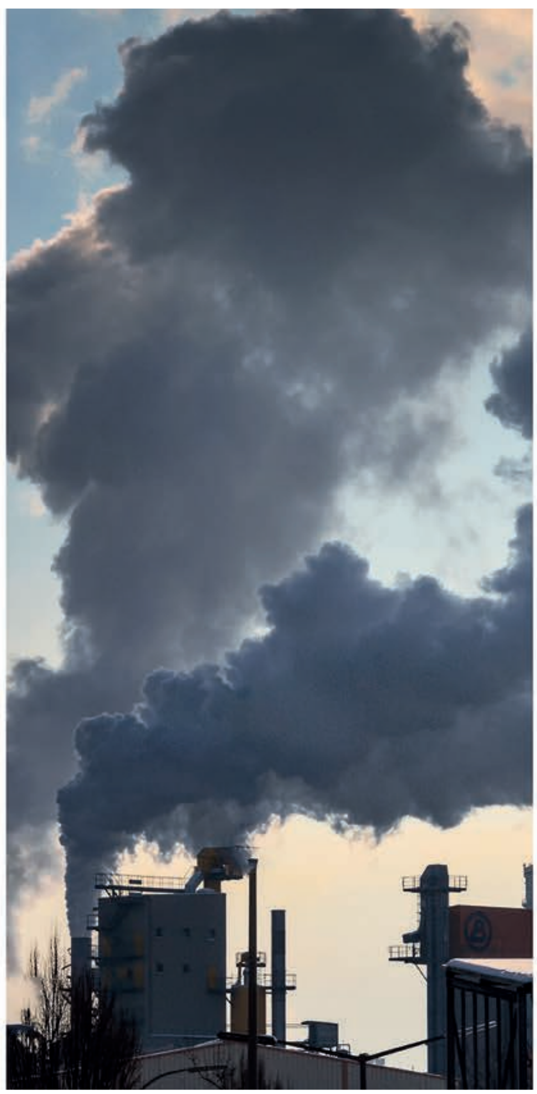
Tax Policy Reforms 2024

OECD AND SELECTED PARTNER ECONOMIES



OECD

Tax Policy Reforms 2024

OECD AND SELECTED PARTNER ECONOMIES

BETTER POLICIES FOR BETTER LIVES

This document, as well as any data and map included herein, are without prejudice to the status of or sovereignty over any territory, to the delimitation of international frontiers and boundaries and to the name of any territory, city or area.

The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

Note by the Republic of Türkiye
The information in this document with reference to "Cyprus" relates to the southern part of the Island. There is no single authority representing both Turkish and Greek Cypriot people on the Island. Türkiye recognises the Turkish Republic of Northern Cyprus (TRNC). Until a lasting and equitable solution is found within the context of the United Nations, Türkiye shall preserve its position concerning the "Cyprus issue".

Note by all the European Union Member States of the OECD and the European Union
The Republic of Cyprus is recognised by all members of the United Nations with the exception of Türkiye. The information in this document relates to the area under the effective control of the Government of the Republic of Cyprus.

Please cite this publication as:
OECD (2024), *Tax Policy Reforms 2024: OECD and Selected Partner Economies*, OECD Publishing, Paris, https://doi.org/10.1787/c3686f5e-en.

ISBN 978-92-64-91806-1 (print)
ISBN 978-92-64-53714-9 (PDF)
ISBN 978-92-64-87585-2 (HTML)
ISBN 978-92-64-97623-8 (epub)

Tax Policy Reforms
ISSN 2617-3425 (print)
ISSN 2617-3433 (online)

Photo credits: Cover © Karnj Ayu/Shutterstock.com; © Lisa-S/Shutterstock.com; © MikeDotta/Shutterstock.com.

Corrigenda to OECD publications may be found at: https://www.oecd.org/en/publications/support/corrigenda.html.

Foreword

This report was produced by the Tax Policy and Statistics Division of the OECD's Centre for Tax Policy and Administration. It was led by Daniel Fichmann under the supervision of Bert Brys, and written jointly by Daniel Fichmann, Patrice Ollivaud (Economics Department), Stéphane Buydens, Clara Gascon, Cathal Leslie, Mark Mateo, and Astrid Tricaud. The authors would like to thank the delegates of Working Party No.2 on Tax Policy Analysis and Tax Statistics and the Committee on Fiscal Affairs for their inputs, as well as colleagues Piet Battiau, Assia Elgouacem, Pierce O'Reilly, Sarah Perret, and Kurt Van Dender for their contributions and comments. The authors would also like to thank Michael Sharratt for his support with data processing.

The report was approved by the Committee on Fiscal Affairs and Working Party No.2 on Tax Policy Analysis and Tax Statistics on 15 August 2024 and prepared for publication by the OECD Secretariat.

Table of contents

FIGURES

TABLES

Executive summary

The annual publication "Tax Policy Reforms: OECD and Selected Partner Economies" provides a summary and comparison of tax reforms across countries. The report documents the evolution of tax policy changes over time and highlights recent trends in country tax policy. This year's edition covers tax reforms introduced or announced during the 2023 calendar year within 90 member jurisdictions of the OECD/G20 Inclusive Framework on Base Erosion and Profit Shifting, including all OECD countries.

Faced with consecutive challenges coupled with an uncertain macroeconomic outlook, policymakers have been navigating a complex terrain. Policymakers are tasked with raising additional domestic resources while simultaneously extending or enhancing tax relief to alleviate the cost-of-living crisis that is affecting households and businesses around the world. This balancing act has led to a range of strategies. On the one hand, governments further protected and broadened their domestic tax bases, increased rates, or phased out existing tax relief. On the other hand, reforms also kept or expanded personal income tax relief to households, temporary VAT reductions, or cuts to environmentally related excise taxes.

The trend towards tax decreasing reforms observed during the COVID-19 pandemic and the subsequent period of high inflation is showing signs of deceleration or reversal. While recent editions of the report have identified a trend of countries introducing both temporary and permanent tax concessions to support individuals and businesses during global macroeconomic shocks, 2023 has seen a relative decrease in rate cuts and base narrowing measures in favour of rate increases and base broadening initiatives across most tax types.

A notable shift occurred in the taxation of businesses, where the trend in corporate income tax (CIT) rate cuts seems to have halted, with far more jurisdictions implementing rate increases than decreases in 2023, for the first time since the first edition of the Tax Policy Reforms report in 2015. As the global economy continues to recover, this change reflects the need for additional revenues and an effort to enhance equity within the tax system. With statutory tax rates at historic lows, responses suggest that countries wanting to offer favourable CIT treatment to businesses are choosing base narrowing measures rather than rate decreases. In parallel, significant progress has been made towards implementing the Global Minimum Tax (GMT) to establish a worldwide floor for the effective tax rates of large multinational enterprises (MNEs). As of April 2024, 60 jurisdictions had announced publicly that they are taking steps towards introducing CIT or implementing the GMT, with 36 taking steps towards an application of the Global Minimum Tax starting in 2024, and some expect to implement legislation taking effect from 2025. Climate considerations are also increasingly influencing the design and use of tax incentives, with more jurisdictions implementing generous base narrowing measures to promote clean investments and facilitate the transition towards less carbon-intensive capital.

Although cuts to personal income taxes (PIT) remain a tool for supporting economic recovery and household incomes, a growing share of jurisdictions covered in this report are implementing social security contribution (SSC) increases. During the pandemic, PIT and SSC reforms were crucial for providing tax relief to households. However, since the pandemic, against a backdrop of demographic shifts such as population ageing, rising healthcare costs, and a heightened need for social protection financing,

there has been a growing trend to broaden and increase SSCs. PIT reforms generally focused on supporting low- and middle-income households, with the number of base narrowing measures continuing to significantly exceed base broadening measures. Some countries also introduced progressive reforms shifting the tax burden away from low-income households and three countries increased their top PIT rate. Meanwhile PIT base broadening reforms were either implemented because the original motivations for the tax relief had dissipated, or due to a need for additional revenues to finance other government priorities. Reforms to capital income taxes remain modest as in previous years.

After various jurisdictions introduced significant VAT relief measures on energy products in response to a sharp rise in energy costs and subsequent inflation, the pace of such VAT cuts and base narrowing measures is slowing, with some scaling back VAT relief measures on those products. A large share of jurisdictions expanded or extended temporarily reduced VAT rates on energy products, allowing governments to enact visible policy measures that could have an immediate impact on household budgets. There was also a notable trend of jurisdictions using the VAT system to encourage the transition to lower-carbon economies through reduced rates for electric vehicles or zero rates for solar panels, for example. In contrast to previous years, however, six jurisdictions increased their standard VAT rate. Additionally, in an ongoing effort to raise revenues and promote public health by discouraging the consumption of certain products or activities, several high and upper-middle-income countries have intensified their health-related excise taxes, especially on tobacco, alcoholic beverages, sugar sweetened beverages (SSBs), and gambling.

The ongoing cost-of-living pressures continued to prompt jurisdictions to reduce taxes on energy use, a trend that initially emerged in 2022. Despite these inflation-induced challenges, however, several primarily high-income countries increased their carbon tax in 2023 to support the transition to a low-carbon economy. As the year progressed, the challenge for policy makers was to move from what were initially broad support measures to more targeted policy responses, due to the rising fiscal costs of these measures and their potential to undermine environmental incentives. In 2023 high-income countries thus generally opted for support measures that reduced excise tax rates only and avoided adjusting their carbon tax rates.

1. Macroeconomic background

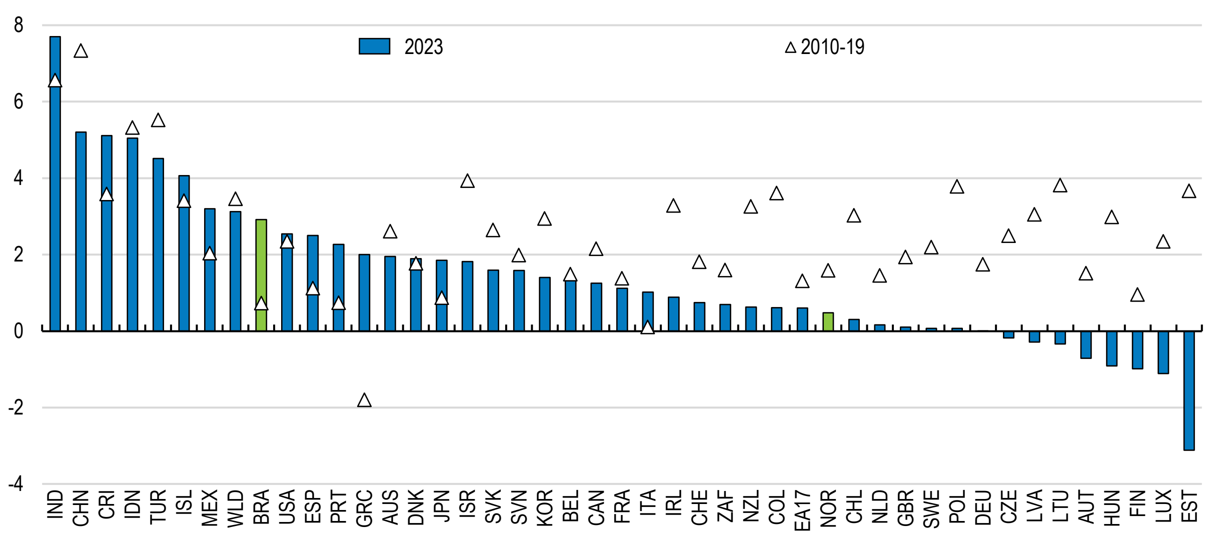
This chapter provides background information on macroeconomic conditions until the end of 2023. Tax revenues and reforms are closely linked to macroeconomic conditions, including variations in economic growth, inflation, productivity, investment, the labour market, and public debt. This chapter gives a brief overview of recent trends in these areas to put the tax policy reforms in context.

Global GDP is estimated to have grown by 3.1% in 2023, around 0.5 percentage point below the 2010s average, with many economies continuing to suffer from the consequences of Russia's war of aggression against Ukraine, the adverse impact of high inflation on real incomes and the necessary widespread monetary tightening (Figure 1.1). Many countries in Europe, especially in Central and Eastern Europe, performed particularly badly with a marked distance between the average over 2010-19 and the 2023 outcome. This reflects the relative importance of bank-based finance and the lagged effects of the energy price shock in energy-importing economies. Growth also moderated in countries in which higher policy rates were quickly reflected in higher borrowing rates. Over one-third of OECD countries experienced a technical recession during 2023, with two successive quarters of output declines.

Amongst advanced OECD countries, the United States is a notable exception with above-trend growth of 2.5% in 2023, exceeding expectations at the start of the year. Its performance was supported by elevated government expenditures and strong consumer spending, with households continuing to run down the excess savings accumulated since the beginning of the pandemic (OECD, 2024[1]). This behaviour differed markedly from most other advanced OECD economies where households over the last two years tended to maintain higher saving rates than before the pandemic. The differing origins of excess savings – the substantial income provided to households through fiscal packages in the United States versus suppressed consumption possibilities in Europe – helps to explain these differences (Barnard and Ollivaud, 2024[2]). Higher housing wealth had boosted household spending in the last few years but during 2023, house prices declined or stabilised in most OECD countries.

Figure 1.1. Average annual real GDP growth

In percent



Note: Aggregates are calculated using weights in purchasing power parities except the euro area (EA17), for which countries are weighted by GDP in euros. Growth in Ireland was computed using gross value added at constant prices excluding foreign-owned multinational enterprise dominated sectors.
Source: OECD Economic Outlook 115 database; and OECD calculations

StatLink https://stat.link/tjcgls

Growth in the emerging-market economies as a whole also surprised on the upside in 2023, but this was not the case in all countries. Brazil, India, Indonesia and Mexico all continued to expand at a

solid pace, reflecting the benefits of improved macroeconomic policy frameworks, strong investment in infrastructure and steady employment gains. In contrast, GDP growth in China and the Republic of Türkiye (hereafter 'Türkiye') was below the 2010s average, even though it remained robust. For China, the slowdown relative to the pre-pandemic decade reflects both a downward trend in growth due in part to demographic factors and a milder-than-expected rebound at the start of 2023 following the reopening of the economy, together with the continued contraction of the property sector and soft consumer spending weighing on domestic demand.

Global GDP growth stabilised at around 3% in the second half of 2023 (seasonally adjusted at the annual rate). The period was characterised by the divergence between buoyant GDP growth in the United States and stagnant or negative growth in the euro area and Japan, respectively. Global trade remained subdued during 2023 but showed signs of some improvement towards the year end after pronounced weakness earlier in the year. A gradual upturn in semiconductor and electronics production in Asia and stronger car sales helped to underpin merchandise trade, and services trade was boosted by the return of international air passenger traffic to pre-pandemic levels. However, attacks on shipping in the Red Sea since December have resulted in trade flows being re-routed, rising shipping costs and longer delivery times (OECD, 2024[1]).

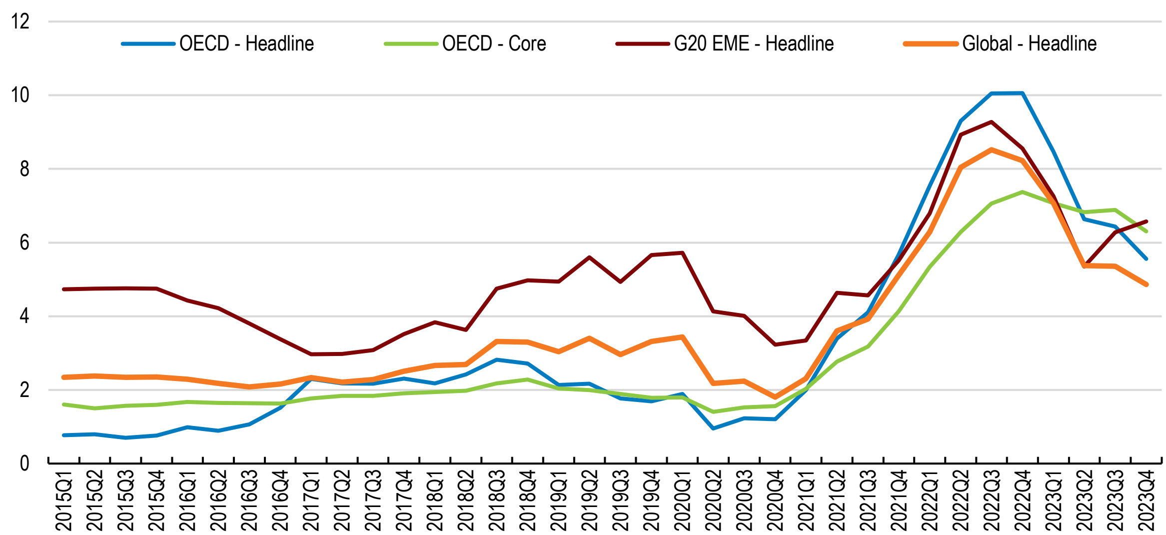
Headline and core inflation in the OECD and major emerging-market economies peaked in the second part of 2022 and have drifted downwards since then, with the exception of the high and rising inflation rates in Argentina and Türkiye (Figure 1.2). The generalised decline of inflation reflects the cooling prices of energy and food as well as widespread monetary tightening, and the easing of supply chain bottlenecks that boosted goods prices in the course of 2021-22. Services inflation has been stickier, with unit labour costs still rising by 4% or more in many economies, explaining why core inflation has decreased only marginally. Both supply-driven and demand-driven factors have contributed to the decline of headline inflation over the last year (OECD, 2024[1]). Headline inflation for OECD countries exceptionally exceeded the value for emerging-market economies during eight quarters owing to high inflation rates in some OECD countries including Türkiye and Baltic countries, and to weak inflation in China. By the end of 2023, however, OECD inflation was back below the average in the emerging-market economies.

Unemployment has generally remained low since 2020 despite the crises that have affected economies across the globe and at the end of 2023 was below the pre-pandemic level for most OECD countries (Figure 1.3). For the OECD as a whole, the unemployment rate was 4.9% in 2023Q4, down from 5.3% in 2019Q4 and having remained relatively stable through 2023. Nonetheless, labour market tightness eased through 2023 with the slowing of job growth, the fall of vacancy rates and evidence of fewer pressing labour shortages (OECD, 2024[1]). This was accompanied by some moderation of nominal wage growth in most economies.

Monetary policy tightening has pushed interest rates higher quickly across the globe. This has notably affected housing markets, even though strong population growth (including via immigration) and a limited stock of houses for sale limited the drop in prices in some countries. Nevertheless, housing and commercial real estate transactions dropped significantly in 2023, following higher mortgage rates (credit growth turned negative) and changes in working practices since the pandemic (OECD, 2024[1]). Falling prices and associated loan repayment difficulties are also weighing on the balance sheet of banks and other real estate investors (OECD, 2024[3]). Forward-looking real interest rates continued to rise in 2023, returning to levels last seen before the global financial crisis in some economies, maintaining restrictive financial conditions. Nonetheless, global financial conditions have begun to ease in recent months with the strengthening of equity prices, the reduction of volatility and the moderation of broader financial stress. Several central banks started to reduce their policy rate in the first half of 2024.

Figure 1.2. Inflation rate since 2015

Year-on-year, in percent

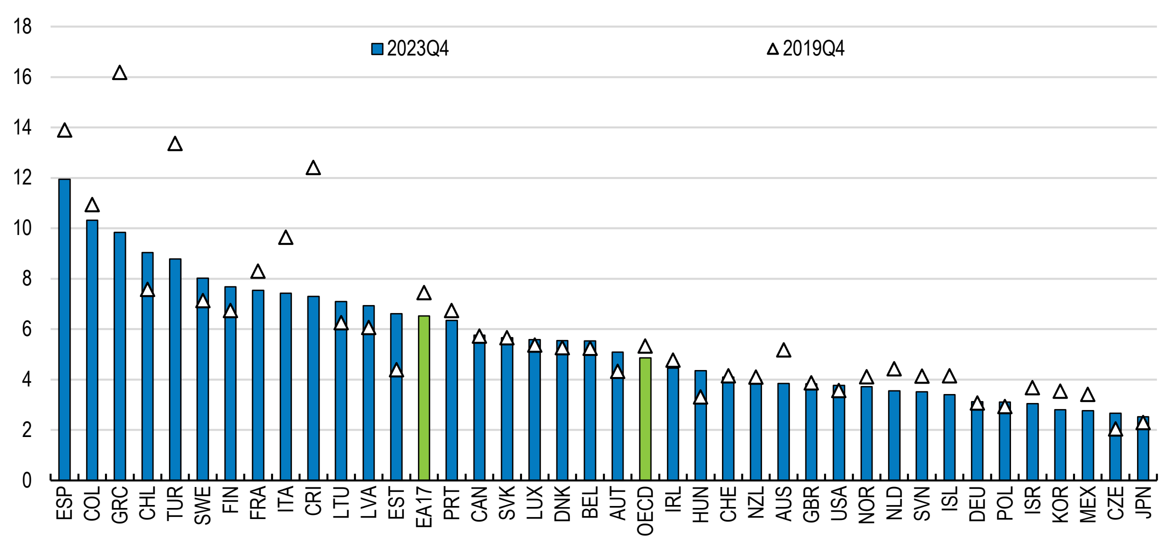


Note: Core is a measure of inflation excluding food and energy products.
Source: OECD Economic Outlook 115 database; and OECD calculations.

StatLink https://stat.link/ncp0g8

Figure 1.3. Unemployment rates in OECD countries

As a percentage of the labour force



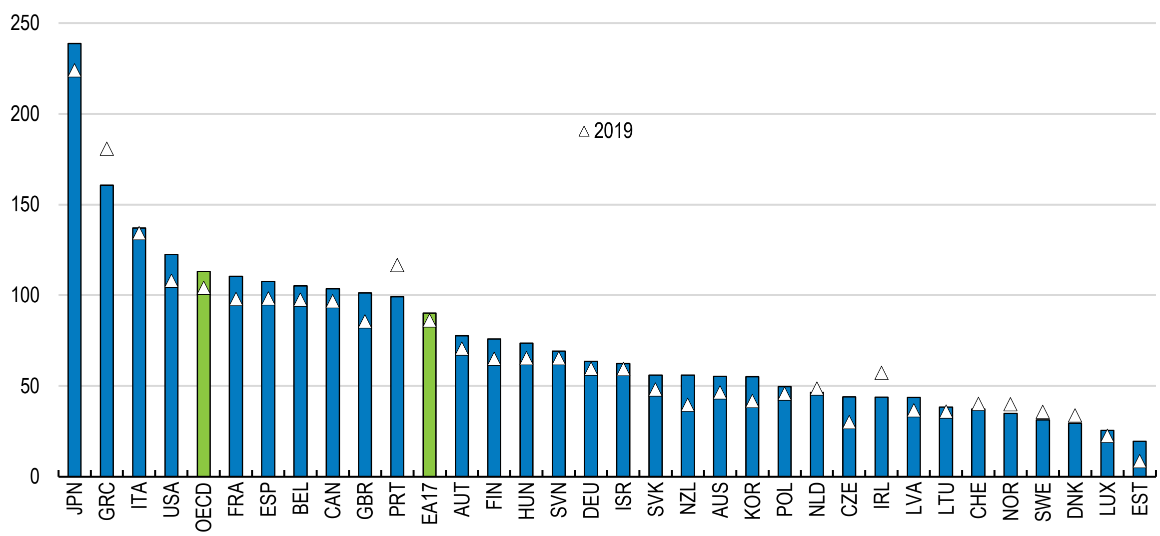
Source: OECD Economic Outlook 115 database; and OECD calculations.

StatLink https://stat.link/res9j3

Public debt in 2023 was higher than before the pandemic for most countries (Figure 1.4), except for Greece, Ireland, Portugal and Norway, and (to a lesser extent) for Denmark, Sweden and Switzerland. For the OECD as a whole government debt rose by around 9 percentage points, reaching 113% of GDP in 2023. Government deficits generally decreased over 2021-22 but following the energy crisis triggered by the war in Ukraine, the median deficit across OECD countries increased again in 2023, and is estimated to have reached 2.8% and 4.8% of GDP for the OECD median and weighted average, respectively – the latter led by the increase for the United States of about 3¾ percentage points. That being said, the deficit shrank in 2023 for some OECD countries including Australia, Austria, Canada, Germany, Hungary, Italy, Japan, Latvia, Portugal and Spain. As debts and interest rates increase, interest payments have started to rise as a share of GDP. Even so, in 2023, they mostly remained below the average over 2010-19, except notably for Australia, Hungary, New Zealand, the United Kingdom and the United States.

Figure 1.4. General government gross debt

As a percentage of GDP, 2023



Note: Maastricht definition for EU countries.
Source: OECD Economic Outlook 115 database.

StatLink https://stat.link/zjk0yv

The macroeconomic conditions leading up to and in 2023, undoubtedly impacted government's decisions to implement tax reforms. The causal link between macroeconomic patterns and particular tax reforms remains largely unexplored. That said, there is some evidence to suggest that high levels of government debt are a key motivator of revenue increasing tax reform (Romer and Romer, 2010[4]). Furthermore, population ageing, rising climate change mitigation costs, and other new spending priorities may induce countries to introduce revenue raising reforms sooner rather than later. High inflation rates, on the other hand, put pressure on the budgets of households whose wages are sticky, which, in turn, puts pressure on governments to offer tax relief to households through both targeted and broad measures. Similarly, the uncertain economic conditions may have led some policy makers to be cautious with reducing relief or increasing rates too quickly. These trends are supported in the analysis in Chapter 3.

References

Barnard, G. and P. Ollivaud (2024), *Whither excess household savings? A key known unknown*, OECD, https://oecdecoscope.blog/2024/02/29/whither-excess-household-savings-a-key-known-unknown/. [2]

OECD (2024), *OECD Economic Outlook, Interim Report February 2024: Strengthening the Foundations for Growth*, OECD Publishing, Paris, https://doi.org/10.1787/0fd73462-en. [1]

OECD (2024), *OECD Economic Outlook, Volume 2024 Issue 1*, OECD Publishing, Paris, https://doi.org/10.1787/69a0c310-en. [3]

Romer, C. and D. Romer (2010), "The Macroeconomic Effects of Tax Changes: Estimates Based on a New Measure of Fiscal Shocks", *American Economic Review*, Vol. 100/3, https://doi.org/10.1257/aer.100.3.763. [4]

2. Tax revenue context

This chapter is based on the OECD Global Revenue Statistics Database and its accompanying publications. It describes the latest tax revenue trends, analysing both total tax-to GDP ratios and tax structures over time, across low-, middle-, and high-income countries, focusing on OECD countries in particular.

This chapter outlines the most recent trends in tax revenues, examining both the overall tax-to-GDP ratios and the composition of tax revenues across all 38 OECD countries, as well as low-, middle-, and high-income countries featured in the OECD Global Revenue Statistics database. It focuses on changes in tax-to-GDP ratios and tax structures principally in OECD countries, as well as for high-, middle-, and low-income country averages, with a particular emphasis on shifts observed over the past two to three decades. For 36 OECD countries, preliminary data for 2022 is presented in this chapter, for all other jurisdictions, regions, or income groups, the most recent available data is for 2021.

In 2022, the tax-to-GDP ratio decreased in most OECD countries, with the average ratio across the OECD dropping by 0.15 percentage points to 34.0%. Over three-quarters of OECD countries experienced an increase in corporate income tax (CIT) revenues as a percentage of GDP, driven by heightened profits, particularly in the energy and agriculture sectors. Conversely, excise revenues fell in 34 of the 36 OECD countries with available preliminary data for 2022, as significant rises in global energy prices reduced demand and led numerous countries to cut energy taxes (which was discussed in the previous edition of this report). Meanwhile value added taxe (VAT) revenues as a share of GDP fell in 16 of the 36 OECD countries with available preliminary data for 2022.

For non-OECD countries, the most up-to-date data available is from 2021 showing diverse fiscal responses and economic recoveries post-pandemic across different global regions. The tax-to-GDP ratio for Africa, covering 33 countries, remained constant at 15.6% of GDP from 2020 to 2021. In contrast, the LAC region, with 26 countries covered, saw an increase of 0.8 percentage points to 21.7%, and the Asia-Pacific region, comprising 29 economies, experienced a modest rise of 0.2 percentage points to 19.8%. Analysing by income group, the average tax-to-GDP ratio in high-income countries (HICs) rose by 0.1 percentage points to 31.8% in 2021, by 0.3 percentage points to 18.4% in middle-income countries (MICs) and remained unchanged at 13% in low-income countries (LICs).

The tax mix across income groups remained largely unchanged in 2021 relative to 2020 (OECD, 2023[1])**.** The overall mix of tax revenue sources across OECD countries remained aligned with tax mixes observed over the past ten years. The rise in tax-to-GDP ratios in 2021 was primarily attributed to increased revenues from CIT and VAT across various jurisdictions. Additionally, a slight decline in revenues from social security contributions (SSCs) and excise taxes was noted in most jurisdictions. The same is true across income group averages, with small or no changes in the tax mix in 2021 relative to 2020. While the tax mix in HICs, on average, relies more heavily on personal income tax (PIT) revenues than in MICs and LICs, the latter, on average, raise over half of their tax revenues from taxes on goods and services which is substantially more than in HICs.

2.1. Trends in tax revenue levels

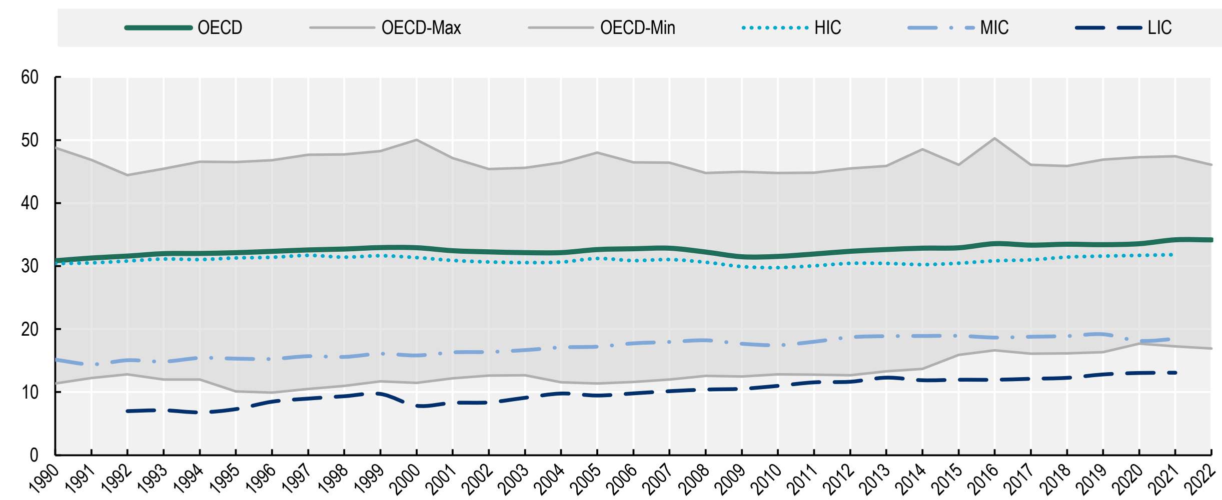
Tax revenues vary significantly across countries. However, there is a trend of convergence in tax-to-GDP ratios, with LICs and MICs increasing their tax revenues over the last thirty years (Figure 2.1). Variation in tax-to-GDP ratios among OECD countries also continued to gradually diminish, with countries having ratios near the lower end moving closer to the OECD average.

In 2021, regions around the world, including Latin America and the Caribbean (LAC), Asia-Pacific, and Africa, saw their tax revenues start to rebound from the significant contractions of 2020 caused by the COVID-19 pandemic. The average change of tax revenues, however, hides the substantial variation across countries. From 2020 to 2021, the tax-to-GDP ratio rose in 85 economies with available data for 2021, fell in 38, and stayed the same in one. In more than half of these economies, the change in the tax-to-GDP ratio was under one percentage point, whereas 22 economies saw shifts greater than two percentage points in their tax-to-GDP ratio.

In 35 of the 36 OECD countries with available data in 2022, nominal tax revenues increased compared to the previous year, with nominal GDP rising in all 36 countries. In 20 of these countries, the tax-to-GDP ratio decreased because tax revenues grew at a slower pace than GDP, whereas in Denmark, the ratio fell due to a nominal decrease in tax revenues alongside a GDP increase (OECD, 2023[1]). Conversely, in the 14 countries that experienced an increase in their tax-to-GDP ratio compared to 2021, nominal tax revenues grew more significantly than nominal GDP.

Figure 2.1. Tax-to-GDP ratios since 1990

Tax revenues as a percentage of GDP



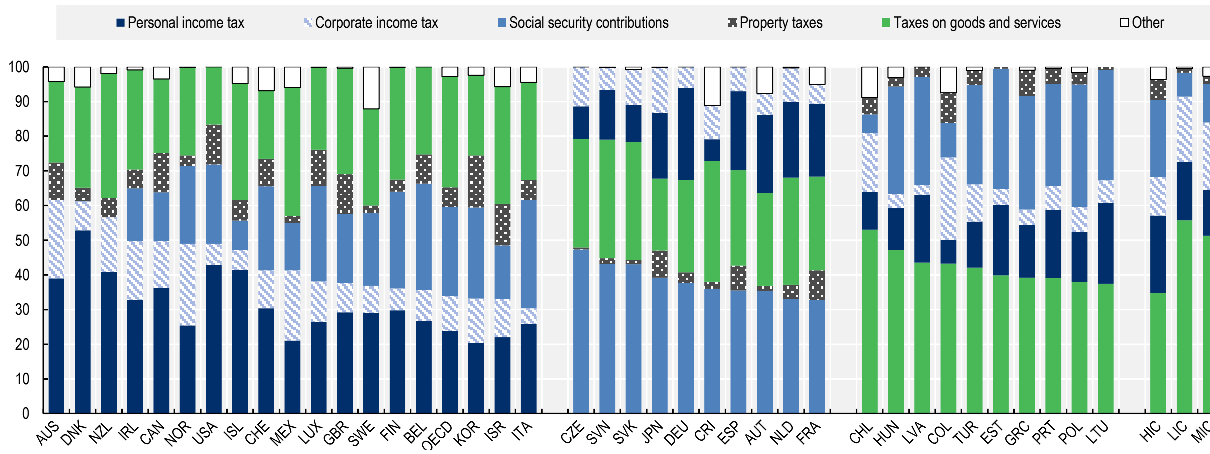
Note: The maximum and minimum OECD values signal the range. The number of jurisdictions included in each group varies over time – see the Global Revenues Statistics database for more information.
Source: Global Revenue Statistics Database

StatLink https://stat.link/hf3rtz

2.2. Trends in tax structures

As with the level of tax revenues, the composition of tax structures across OECD countries showed significant variation in 2021. 18 OECD countries primarily generated their revenues from income taxes (including both corporate and personal taxes), ten OECD countries relied most heavily on social security contributions, and another ten derived the majority of their revenues from consumption taxes (including VAT). Taxes on property and payroll taxes contributed less significantly to the overall tax revenue mix in OECD countries during 2021, both on average and within the majority of the countries (Figure 2.2). Low-income countries (LICs) and middle-income countries (MICs) typically fall into the latter group, with taxes on goods and services constituting the largest portion of total tax revenues. Within the realm of taxes on goods and services, excise taxes represent a more substantial share of revenues in LICs and MICs compared to high-income countries (HICs), highlighting the variability in tax revenue sources based on income levels.

Figure 2.2. Tax structures in 2021 (as a % of total tax revenues)



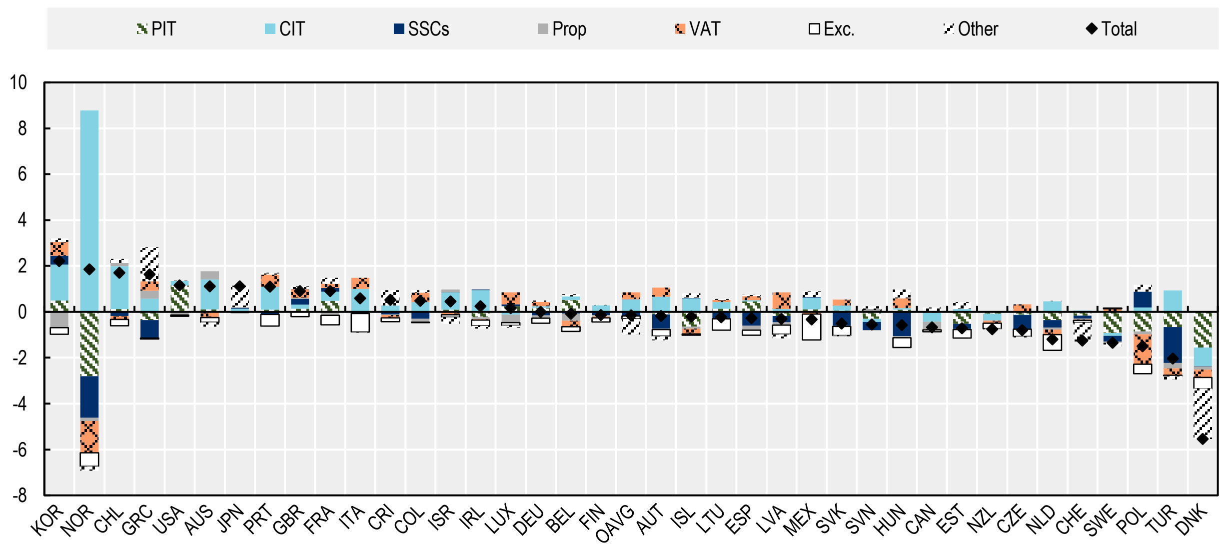
Note: Countries are grouped and ranked by those where income tax revenues (personal and corporate) form the highest share of total tax revenues, followed by those where social security contributions, or taxes on goods and services, form the highest share.
Source: Global Revenue Statistics Database.

StatLink https://stat.link/z14b3g

Between 2021 and 2022, tax structures within OECD countries did not change significantly. The shifts in tax-to-GDP ratios across various countries displayed a relatively balanced mix of increases and decreases in 2022, with a slight tilt towards more decreases. Among the 21 countries experiencing a decline in their tax-to-GDP ratio, Denmark saw the most significant drop of 5.5 percentage points, largely attributed to a decrease in income tax[1] revenues (Figure 2.3). Additionally, the Netherlands, Poland, Sweden, Switzerland, and Türkiye each reported reductions in their tax-to-GDP ratio exceeding 1 percentage point. Conversely, Korea experienced the most substantial growth in its tax-to-GDP ratio, with an increase of 2.2 percentage points, driven by elevated income taxes and VAT revenues. Norway followed with the second-largest rise, with tax revenues increasing by 1.9 percentage points due to extraordinary profits in the energy sector[2]. Notably, increases exceeding 1.5 percentage points were also recorded in Chile and Greece.

Figure 2.3. Decomposition of change in OECD tax-to-GDP ratios by tax type, 2021-22

Year-on-year change, p.p.



Note: Data for 2022 are preliminary and should be interpreted with caution. This graph includes the change between years 2020 and 2021 for Australia and New Zealand, Japan, Greece, and the OECD average due to the unavailability of disaggregated data for 2022 for these countries.
Source: OECD Revenue Statistics (2023).

StatLink https://stat.link/lcm2u5

.

Notes

[1] Including PIT, CIT, and the pension yield tax.

[2] The increase in corporate income tax revenues in 2022 is due to exceptional profits in the energy industry in 2022 during the energy crisis. Similar to petroleum companies, producers of hydroelectric power are subject to a special income tax for the state to collect the resource rent.

References

OECD (2023), *Revenue Statistics 2023: Tax Revenue Buoyancy in OECD Countries*, OECD Publishing, Paris, https://doi.org/10.1787/9d0453d5-en. [1]

3. Tax Policy Reforms

This chapter provides an overview of the tax reforms adopted by 90 member jurisdictions of the OECD/G20 Inclusive Framework on Base Erosion and Profit Shifting that responded to the OECD's annual tax policy reform questionnaire, including all OECD countries. It reviews the reforms that were announced and implemented between 1 January 2023 and 31 December 2023, examining trends in each category of tax, including personal income taxes and social security contributions, corporate income taxes and other corporate taxes, consumption taxes, environmentally related taxes, and taxes on property.

3.1. Introduction

The discussion in this chapter is primarily based on countries' responses to the 2024 annual Tax Policy Reform Questionnaire, which was completed by 90 member jurisdictions of the OECD/G20 Inclusive Framework on Base Erosion and Profit Shifting at the start of 2024.[1] This annual questionnaire asks responding jurisdictions to describe their tax reforms as well as to provide details on their expected revenue effects and other relevant information; including the rationale for the tax measures (see Box 3.1). In the following sub-section, we for the first time empirically summarise tax reforms in high-income countries from 2015 to 2023. The sections that follow examine trends in each category of tax including personal income taxes and social security contributions (Section 3.2), corporate income taxes and other corporate taxes (Section 3.3), taxes on goods and services, including VAT, sales taxes and excise duties (Section 3.4), environmentally related taxes (Section 3.5) and property taxes (Section 3.6).

Box 3.1. The OECD Annual Tax Policy Reform Questionnaire

At the Working Party No.2 on Tax Policy Analysis and Tax Statistics (WP2) meeting in November 2009, delegates from OECD countries agreed to start systematically collecting information on the main tax measures adopted in each country. The motivation for this proposal was to provide consistent and comparative information on tax reforms to inform policy discussions in OECD and non-OECD countries. At the November 2010 WP2 meeting, the following criteria were agreed for deciding whether a tax policy measure was sufficiently substantial to be reported in the questionnaire:

- A significant change in a total tax rate;
- A change in the tax base that is expected to change revenue from that base by more than 5% of total tax revenue or 0.1% of GDP; and
- A politically important systemic reform.

Any central or sub-central tax policy measure that was implemented, legislated, or announced in the previous calendar year that meets at least one of the criteria listed above must be reported in the questionnaire.

For each reform, the questionnaire requests information on the type of tax; the dates of entry into force, legislation, or announcement; the direction of the rate and/or base change; and a detailed description of the reform. The questionnaire also asks for the rationale behind the reform and estimates of the revenue effects of the tax measures.

Analysing tax reform trends from 2015-2023

There are signs that the trend towards tax decreases observed during the consecutive crises of COVID-19 and inflation has decelerated or is beginning to reverse. Figure 3.1 below shows the weighted direction of tax reforms in high-income countries between 2015 and 2023. The reforms are weighted by a normalised, absolute value of their projected (annual) revenue impact, where the revenue impact data is used as a proxy for the significance of the reform. Meaning that the y-axis in Figure 3.1 should not be interpreted as the average projected revenue impact of reforms. Instead, following the steps outlined in Box 3.2, we weigh each reform by assigning it a value between 0 and 1, depending on the absolute size of its projected annual revenue impact. The indicator in Figure 3.1 is thus the average difference of the sum of all the weighted tax increasing and tax decreasing reforms.

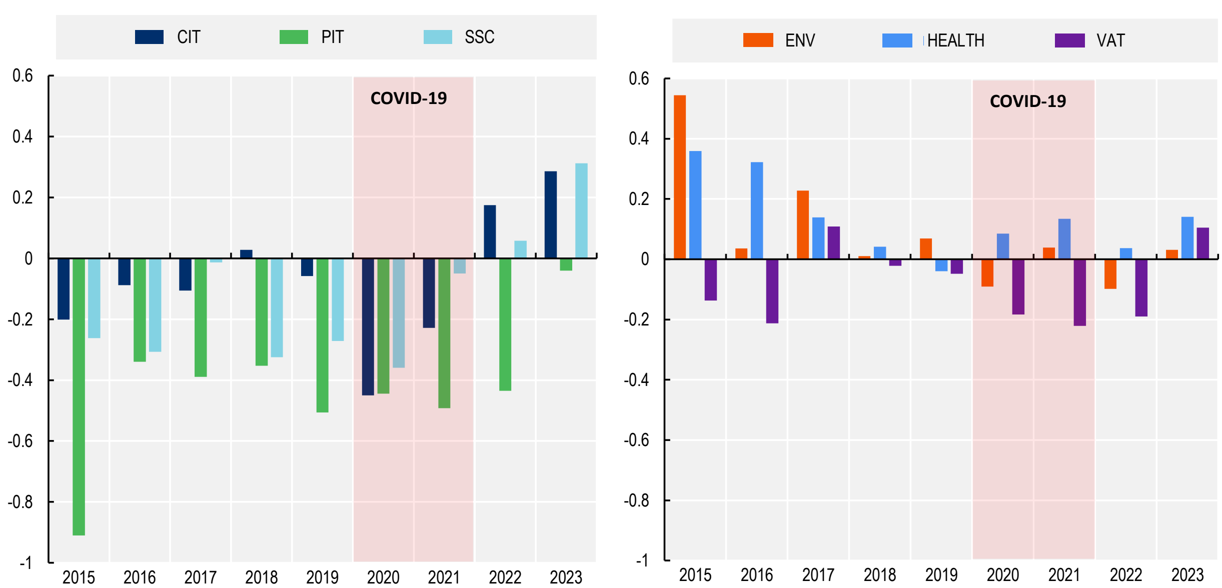
The data in Figure 3.1 suggests that after implementing CIT decreasing reforms during and before the COVID-19 pandemic, high-income countries started implementing and announcing more CIT

increasing reforms in 2022 and 2023. High-income countries were able to respond to the pandemic with CIT relief because many of them had both the fiscal buffer as well as a sufficient tax burden on businesses to be able to offer relief through the tax system.

PIT and SCC decreasing reforms were a key tool in providing relief to households during the pandemic. Here too, high-income countries had both the necessary existing tax burden as well as the fiscal buffer to be able to provide substantial tax relief for PIT and SSCs. The data in Figure 3.1 also shows that although more countries started to return to strengthening the PIT, high-income countries continued to introduce PIT relief measures to support households in 2022 and 2023. For SSC reforms on the other hand, the trend shows a significant rise in countries that have increased their SSCs since 2022. This comes after significant decreases during the pandemic and likely also reflects demographic trends and the resulting fiscal pressures in many high-income countries.

A similar pattern is observed for the VAT. High-income countries started offering VAT relief during the pandemic followed by more support in 2022 during the energy price shocks and cost-of-living crises. Although rising prices are still an issue in many advanced economies and countries are extending their temporary VAT decreases, 2023 shows the beginning of a cautious rollback with some jurisdictions increasing VAT rates or phasing out reductions. This recalibration also extends to environmentally related excise tax reforms.

Figure 3.1. Average reform direction of tax reforms implemented in high-income countries over the 2015-2023 period



Notes: The values in this figure are calculated using only the reforms for which revenue impact data was made available.
Source: OECD Annual Tax Policy Reform Questionnaire and author's calculations

StatLink https://stat.link/e7mya3

Box 3.2. Calculating the reform direction using tax revenue impact information

Let $R_{j,i,t+p}$ denote the nominal revenue impact for reform j in country i in period $t+p$ (using the revenue information provided in the questionnaire for up to 4 years).

1. The average reported revenue impact over P_j years is calculated as:

$$\overline{R_{j,\iota,t}} = \frac{1}{P_j}\left(\sum_{p=1}^{P_j} R_{j,i,t+p}\right)$$

2. The average revenue is divided by $GDP_{i,t}$ to standardise:

$$r_{j,i,t} = \frac{\overline{R_{j,\iota,t}}}{GDP_{i,t}}$$

3. The standardised values are winsorized at the 2.5 and 97.5 percentile. A common practice with noisy data that involves replacing the extreme high and low values of $r_{j,i,t}$ with the nearest values within those thresholds to ensure that outliers do not skew the results.

4. The absolute value of the standardised revenue impact is normalised using the common min-max rescaling approach in order to obtain a weight that ranges from 0 to 1:

$$weight_{j,i,t} = \frac{|r_{j,i,t}| - min(|r_{j,i,t}|)}{max(|r_{j,i,t}|) - min(|r_{j,i,t}|)}$$

   Where $|r_{j,i,t}|$ is the absolute value of the standardised revenue impact for a reform j, in country i, and year t; and $min(|r_{j,i,t}|)$ and $max(|r_{j,i,t}|)$ are the global minimum and maximum values of $|r_{j,i,t}|$ computed over the entire dataset of reforms (including all countries and years). This approach ensures that the normalisation is performed relative to the extreme values found in the entire dataset, providing a consistent scale for all data points.

   We normalise the data in order to re-scale the value for the weight between 0 and 1, allowing us to count the reforms as in previous years while also taking their significance into account. Thus, the revenue data is only used as a proxy for the significance of a reform, as we do not want the indicator to be falsely interpreted as a revenue forecast.

5. Once the weight is calculated, reforms are categorised into tax increasing, tax decreasing and neutral reforms and grouped into CIT, PIT, SSC, VAT, environmentally related tax (ENV), and health related tax (HEALTH) reforms. We then sum the weights of all tax increasing measures and the weights of all tax decreasing measures in each country i, for each tax type x, and year t and calculate the difference. Meaning that at the end we are left with a $Direction_{i,x,t}$ measure for country i, tax type x, and year t:

$$Direction_{i,x,t} = \sum_{j}^{J_{i,x,t}}\left(weight_{j,i,x,t} * I(increase_{j,i,x,t})\right) - \sum_{j}^{J_{i,x,t}}\left(weight_{j,i,x,t} * I(decrease_{j,i,x,t})\right)$$

   Where $J_{i,x,t}$ is the total number of reforms in country i for tax type x and year t; $weight_{j,i,x,t}$ is the normalised weight associated with reform j for country i tax type x and year t; and lastly $I(increase_{j,i,x,t})$ is an indicator function assigning the value 1 if the reform j is a tax increase and 0 otherwise.

6. To obtain the values in Figure 3.1 we calculate the annual average of the difference across countries for CIT, PIT, SSC, VAT, environmentally related taxes (ENV), and health related taxes (HEALTH):

$$AverageReformDirection_{x,t} = \frac{1}{N_{x,t}}\left[\sum_{n}^{N_{x,t}} Direction_{i,x,t}\right]$$

Where $N_{x,t}$ is the number of high-income countries in the dataset for tax type x and year t. $Direction_{i,x,t}$ is the country specific difference of the sum of weighted tax increases and the sum of weighted tax decreases for each country i tax type x and year t.

The resulting indicator, $AverageReformDirection_{x,t}$, is presented in Figure 3.1. and shows the average direction of tax reforms across high-income countries for each tax type and year from 2015 to 2023.

3.2. Personal income tax and social security contributions

While jurisdictions continue to make cuts to PIT to support households and stimulate the economy, a growing share of jurisdictions covered in this report are implementing SSC increases. Since the onset of COVID-19, against a backdrop of demographic shifts such as population ageing, rising healthcare costs, and a heightened need for social protection financing, there has been a growing trend to broaden SSC bases and increase SSC rates. Regarding the PIT, most reforms in 2023 continued to lower the PIT burden on low-and middle-income households. However, compared to 2022, a greater share of jurisdictions increased their PIT through rate hikes or base broadening measures to raise additional revenues.

Inequality and cost-of-living concerns drove a significant share of PIT reforms in 2023. Cost-of-living pressures, including high inflation and interest rates continue to impact household budgets. In response, many countries introduced PIT reforms to support low- and middle-income households. Some countries also introduced reforms shifting the tax burden away from low-income households in order to improve the progressivity of their PIT system. Furthermore, as in 2022, countries also implemented measures in response to increases in rents and housing prices.

In comparison to 2022, a greater proportion of countries implemented increases in their PIT and SSCs with the aim of generating additional tax revenue. In particular, there was a marked increase in the number of jurisdictions that broadened SSC bases and raised SSC rates. These changes were primarily introduced to fund new insurance and health programs or to strengthen the financial sustainability of existing ones. Furthermore, while PIT base narrowing measures continued to outnumber PIT base broadening reforms in 2023, the share of countries introducing PIT base broadening reforms increased. Jurisdictions that broadened their PIT bases generally did so by removing or scaling back existing allowances and credits. Such base broadening reforms were either implemented because the original motivations for the tax relief had dissipated, or due to the need for additional tax revenues to finance government spending.

High-income countries raise a significant share of their total tax revenues from PIT and SSCs

PIT and SSCs are a major revenue source in most OECD and high-income countries but represent a smaller fraction of total tax revenues in low- and middle-income countries (Figure 3.2). In 2021, PIT and SSCs together contributed to 49% of total tax revenues, with PIT constituting 24% and SSCs making up 26% on average across OECD countries. By comparison, in low-income and middle-income

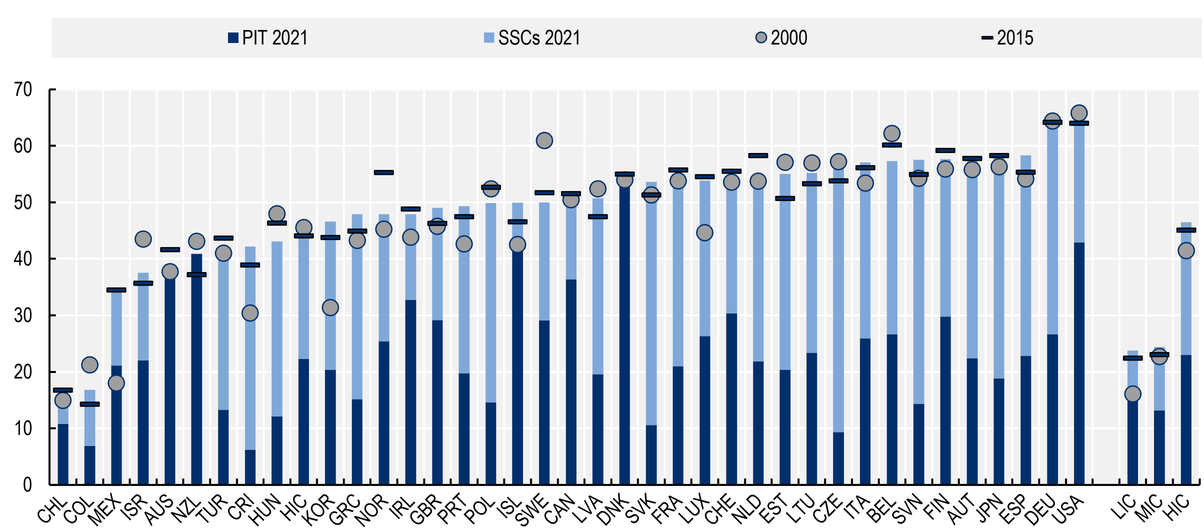
countries, PIT represented 17% and 13% of total tax revenue, respectively, whereas SSCs accounted for 7% and 11%.

Cross-country differences in the share of revenues from PIT and SSCs in total tax revenues remain large (Figure 3.2). Among OECD countries, PIT revenues accounted for under 10% of total tax revenues in Costa Rica, Colombia, and Czechia, while they made up just over 50% of total tax revenues in Denmark. Meanwhile, Australia and New Zealand do not levy SSCs and Denmark raised less than 5% of total tax revenues from SSCs while they accounted for over 40% of total tax revenues in the Slovak Republic, Slovenia, and Czechia. When looking at revenues from PIT and SSCs combined, these taxes accounted for less than 20% of total tax revenues in Chile and Colombia, and over 60% in Germany and the United States.

The economic consequences of the COVID-19 pandemic and the associated PIT and SSC response measures continued to impact average PIT and SSC revenues in 2021. Figure 3.3 shows that average PIT revenues as a share of total tax revenues in high-income countries (HICs), middle-income countries (MICs), and low-income countries (LICs) each declined in 2021 relative to 2020. This is likely a result of high unemployment rates during the pandemic coupled with the broad, temporary PIT relief measures countries implemented, which are covered in more detail in previous editions of this report.

Figure 3.2. Revenues from personal income tax and social security contributions, 2000, 2015, 2021

PIT & SSC revenues as a percentage of total tax revenues



Note: Personal income tax revenues refer to tax category 1100 under the OECD classification of taxes, and social security contributions to tax category 2000. Tax revenues are the sum of taxes collected by all levels of government. See Revenue Statistics Interpretative Guide for more detail. The low- (LIC), middle- (MIC), and high-income country (HIC) averages are representative of the 120 countries that provide tax revenue data to the OECD.
Source: OECD Global Revenue Statistics Database

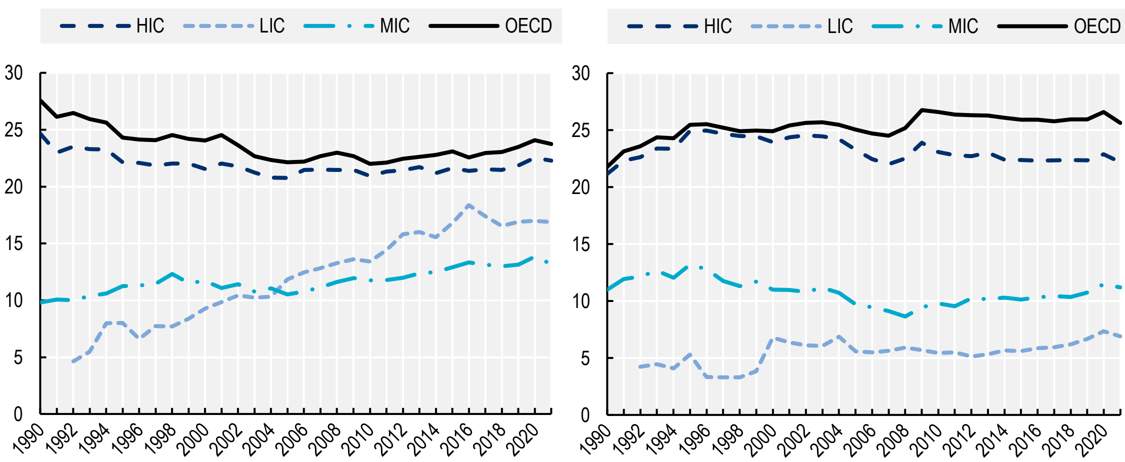
StatLink https://stat.link/853zhv

The tax mix of low- and middle-income countries has evolved significantly over the past three decades, with PIT accounting for an increasing share of total tax revenues (Figure 3.3). In 2000, PIT accounted for 9.3% of total tax revenues in LICs and in 2021, it accounted for 16.9%. The relative importance of PIT revenues in LICs also surpassed that of MICs in 2005, peaking in 2016 at 18.4% of total

tax revenues. The average weight of SSCs in the tax mix of LICs and MICs remained relatively constant over that same period.

Figure 3.3. Average revenues from personal income tax and social security contributions 1990-2021

Revenues from PIT (left) & SSC (right) as a percentage of total tax revenue



Note: Personal income tax revenues refer to tax category 1100 under the OECD classification of taxes, and social security contributions to tax category 2000. Tax revenues are the sum of taxes collected by all levels of government. See Revenue Statistics Interpretative Guide for more detail. The OECD, low- (LIC), middle- (MIC), and high-income country (HIC) averages are representative of the 120 countries that provide tax revenue data to the OECD.
Source: OECD Global Revenue Statistics Database

StatLink https://stat.link/35smpa

Most PIT reforms continued to reduce the tax burden on lower-income earners, while some increased top PIT rates to raise revenues and make the tax system more progressive

Three countries (Denmark, Estonia, and Kenya) announced top PIT rate increases. In the case of Estonia and Kenya, the objective of the reforms was primarily to raise revenues and enhance the progressivity of the tax system. Estonia has introduced a set of revenue-raising reforms in order to reinforce its fiscal balance. Among them is a top PIT rate increase from 20% to 22% (which will come into effect in 2025). Finally, Kenya introduced two new marginal PIT rates of 32.5% and 35% on employment income above KES 6 000 000 (EUR 40 000) and KES 9 000 000 (EUR 60 000) respectively. This increased the number of tax brackets from three to five and raised the tax burden on top earners.

In Denmark, the government enacted a broad PIT reform, including the introduction of a new mid-income tax rate by halving the top tax rate of 15% for a certain income bracket, thereby reducing the marginal tax rate for approximately 280 000 persons (or approximately 6% of taxpayers). The PIT reform also included a new top tax which implies an increase in the highest marginal tax rate from 56% to 60.5% for approximately 9 000 persons (or approximately 0.2% of taxpayers), set to take effect from January 2026. This latest Danish reform comes after decades of reforms that gradually lowered marginal PIT rates while broadening the base. As discussed below, the reform also raised the earned income tax credit (EITC) and consequently aimed at increasing effective labour supply and structural employment.

Meanwhile, cuts to non-top PIT rates in high-income jurisdictions largely focused on stimulating economic activity and reducing the burden on low-and middle-income earners, particularly in the face of higher costs of living. Ireland, for example, reduced the rate of its Universal Social Charge[2] by 0.5 percentage points from 4.5% to 4%. Additionally, Ireland also increased its standard 20% rate band for all earners from EUR 40 000 to EUR 42 000, thereby adjusting the entry point for the 40% higher rate to inflation to avoid bracket creep. Italy temporarily consolidated its tax rates from four brackets to three, combining the first two tax brackets and keeping the lower rate to support middle-income households. Both Portugal and Sweden enacted reductions to rates for low-income brackets. Portugal decreased its statutory rates for the first five PIT brackets. Gibraltar decreased its PIT rate by 1 percentage point after temporarily increasing it by 2 percentage points to raise revenues in the wake of Covid-19.

Table 3.1. Changes to personal income tax rates

	Rate increase		Rate decrease	
	2022	2023 or later	2022	2023 or later
Top PIT rate	IDN, JPN[1,2], NOR, SGP[2], SVN	DNK[2],EST[2], KEN,		CAN[3]
Non-top PIT rate	CZE, NOR, NLD	ALB[1], KEN, NLD, NOR	MUS, NLD, NOR, POL, PRT, TGO	CAN[3], DNK, GIB ,HRV, IRL, ITA[4], MUS, NOR, PRT, SWE,

Note: 1 denotes a new tax, 2 denotes reform announcement, 3 denotes that tax reform was implemented at the sub-central level, 4 denotes a temporary reform.
Source: OECD Annual Tax Policy Reform Questionnaire.

Several countries made comprehensive progressive reforms that shifted the tax burden away from low- and middle-income households. Mauritius overhauled its PIT system, abolishing its solidarity levy and replacing the existing three tax brackets with 11 tax brackets and marginal rates ranging from 0 to 20%. Albania introduced a new progressive PIT in 2023, separating taxable income into two brackets where the first ALL 2 040 000 (EUR 20 000) is taxed at 13% and income above that threshold is taxed at a marginal rate of 23%. Furthermore, Albania also reformed the tax treatment of certain self-employed workers, such that taxable business income is taxed progressively at 15% and 23% for income up to and over ALL 14 000 000 (EUR 137 000) respectively. As discussed above, Kenya introduced two new higher rates making their PIT system more progressive. Norway lowered its top three bracket thresholds and increased their rates to offset the revenue decrease from SSC rate cuts, effectively lowering the tax wedge of low- and medium-income households. Meanwhile, the Netherlands increased some of its non-top PIT rates in order to raise additional revenues.

In a significant PIT reform, Croatia abolished its PIT rates of 20% and 30% and replaced them with new tax rates that are determined by local governments within prescribed ranges. The ranges themselves, however, differ based on the population size of the local governments. For example, a town with less than 30 000 inhabitants can choose a lower rate in the range of 15% to 22.4% and a higher rate in the range of 25% to 33.6%, towns with more inhabitants can choose their lower rate from a range of 15% to 23% and their higher rate from a range of 25% to 34.5% respectively.

Jurisdictions continued to narrow PIT bases

The number of PIT base narrowing measures continued to greatly exceed base broadening measures in 2023. Unlike in previous years, however, where base broadening initiatives were less frequent, 2023 showed signs of the focus shifting towards retracting some tax concessions introduced during economic downturns, driven by either the diminished necessity for such support or the urgent need to enhance public revenue for more pressing governmental priorities. Meanwhile base narrowing measures were introduced for a large variety of purposes, spanning broad-based relief for economically vulnerable

groups, incentives for investment and job creation in sectors considered innovative or of strategic significance, and measures to combat specific challenges – most notably, housing affordability.

Jurisdictions continued to increase the generosity of their general PIT allowances to respond to inflation or target relief to low-income earners

Countries enhanced the generosity of their tax allowances to, in some cases, support households with the rising costs of living. Inflation increased the tax burden in some progressive tax systems that do not automatically index their bracket thresholds for inflation. In those cases, higher nominal wages can push taxpayers into higher tax brackets even if real wages have not increased. As a result, a number of countries typically modify their PIT structures to counteract increases in nominal wages as a result of inflation, utilising either automated indexation systems or discretionary measures, a process that gained particular significance given the high inflation rates and the consequent decline in real wages in 2022 but also in 2023 (OECD, 2023[1]).

Table 3.2. Changes to personal income tax bases

	Base broadening		Base narrowing	
	2022	2023 or later	2022	2023 or later
Personal allowances, credits, tax brackets	COL, KOR, NLD, NOR [2]	FIN, KEN, NOR, PRT, SWE	ALB, DEU, ESP, EST, FIN, IRL, KOR, LTU, LVA, NLD, NAM, NOR, POL, SVN, TGO, TTO	ALB, ARG, AUS, AUT[4], CAN[5], COK, DEU[4], DNK, ESP, EST[3], FIN, HRV, IRL, ITA, JPN[1], LCA, LUX[1], MAC, MUS, NLD, NOR, PNG, PRT[1], URY, ZAF
Self-employed and unincorporated business	CZE, NLD, SVN	ALB, GRC, NLD, TUR	ARG, ITA, KOR, ROU	FIN, IDN, LVA, MAC[1], TUR
Employment and specific industries		AUS[3], FRA, IND, NLD, ROU	CAN, ESP, HUN, ITA, JPN, MUS, POL, PRT, ROU, SVN, SWE, TUN, ZAF, USA	AUT, BEL, BGR, DEN, FIN, FRA, IRL, KEN, MYS[1], PER, TUR
Provisions targeted at low-income earners, EITCs and other in-work benefits			DNK, IRL, LUX	CAN, DNK[3], FIN, IRL, LTU, NLD
Children and other dependents		DEU, EST, NOR, PNG	AUT, ARG, AUT, BGR, CAN, CHE, CZE, DEU, ESP, FRA, HRV, IRL, KOR, LUX, MUS, POL, PRT	BGR, CAN, GRC, HRV, IRE, ISR, KOR, LTU, MYS, URY
Elderly & disabled		EST, SWE	AUT, CAN, DEU, FIN, KOR, MLT, SWE, USA	LUX, LTU, HRV, MYS
Miscellaneous expenses, deductions, and credits	BEL, CAN, CHL ESP, NOR[4]	CZE, DNK, EST, FIN, TUR	BRB, CAN, DEU, IRL[1], NZL, SWE, CZE, USA	AUT, DEU, DNK, ESP[1], FIN[1], IRE[1], LVA, LUX, MEX[1], NLD, PRT[1], SVK, SWE[1], TUR, URU, ZAF

Note: 1 includes a temporary tax measure, 2 denotes a new tax, 3 denotes reform announcement, 4 denotes reforms introduced in 2023, but covered in 2022 edition, 5 denotes that tax reform was implemented at the sub-central level.
Source: OECD Annual Tax Policy Reform Questionnaire.

In this context, several high-income countries (including Croatia, Estonia, Finland, Italy, Japan, Luxembourg, Lithuania, the Netherlands, Norway, and Spain) and some middle-income countries (including Papua New Guinea, Saint Lucia, and South Africa) increased their basic PIT allowance. Although most of the basic PIT allowance increases were in response to inflation, many of the increases surpassed inflation rates and therefore effectively reduced the tax burden on low- and middle-income

households to support them with rising costs of living. Estonia, for example, increased its basic monthly allowance from EUR 654 to EUR 700. Italy temporarily raised its basic PIT allowance to EUR 8 500, in addition to introducing measures that reduced the tax rate on its second lowest tax bracket to support low-income households. Croatia increased its basic monthly allowance from EUR 530.90 to EUR 560, raised other allowances supporting families with children, and increased the threshold for applying a higher income tax rate from EUR 47 780 to EUR 50 400. Saint Lucia increased its basic annual allowance to XCD 25 000 (EUR 8 500) and adjusted its tax brackets to inflation. Lithuania increased its basic monthly allowance by over EUR 100 to EUR 747. Both the Netherlands and South Africa adjusted its tax bracket thresholds to account for inflation, but the Netherlands raised its top tax bracket by less than the inflation rate in order to raise revenues. Finland increased its basic allowance and adjusted its tax brackets to inflation. And Austria also updated its automatic inflation adjustment mechanism to counteract inflation pushing workers into higher tax brackets. Luxembourg introduced a set of base narrowing measures. Among them are measures adjusting its tax brackets to inflation, a temporary new tax credit for wage earners and pensioners to compensate for lost purchasing power, and a tax credit to offset the carbon tax on energy products for low- and middle-income earners households (which declines progressively to EUR 0 for incomes exceeding EUR 80 000).

Some countries also increased other PIT allowances to lower the tax burden on households. France and Kenya, for example, provided relief for commuting and transport costs, with Kenya introducing employer-provided travelling allowance exemptions, and France increasing its kilometric allowance by 5.4%. Canada provided a one-time grocery rebate for low- and modest-income individuals and families, which was worth a maximum of CAD 153 (EUR 104) per adult and CAD 81 (EUR 55) per child. Meanwhile, Denmark increased the personal allowance for individuals under 18. Australia increased the threshold for its Medicare levy to ensure low-income households continue to be exempt given that inflation has led to higher nominal wages. Japan introduced a flat-amount reduction for the income tax (in the magnitude of JPY 30 000 (EUR 180)) and individual resident tax (in the magnitude of JPY 10 000 (EUR 60)) for 2024 as a temporary measure.

Several jurisdictions introduced PIT reforms to encourage employment and support specific industries

Austria, Belgium, Finland, and Malaysia provided labour income-based tax deductions and credits. Belgium increased the amount of its fiscal work bonus for the lowest wages from 33.14% to 52.54% of the social work bonus, as well as the overall cap of the fiscal work bonus from EUR 550 to 710 EUR in 2025 and EUR 765 in 2026. Austria extended its tax- and SSC-free bonus payment to 3 000 EUR. Malaysia extended its tax break for women returning to the labour force. Meanwhile Finland increased and extended a two-year trial to assess the employment impact of a tax credit for household expenses (such as domestic work, childcare, and nursing).

A few high-income countries increased the generosity of Earned Income Tax Credits (EITC) to support employment. Denmark, for example, enhanced its EITC and introduced an additional increase for single parents. Ireland increased its employee tax credit from EUR 1 775 to EUR 1 875.The Netherlands increased its EITC by EUR 115 for those earning around the minimum wage. Finland also increased its EITC, with an additional increase for those above the age of 65 to encourage older workers to remain in the workforce.

Some jurisdictions tailored their PIT incentives to support specific industries. Bulgaria enhanced tax relief for farmers, reinforcing support for the agricultural sector. Romania, on the other hand, ended its PIT exemption for IT workers. After the reform, employees in the IT sector will continue to be eligible to a monthly RON 10 000 (EUR 2 000) deduction until the end of 2028, but income above that threshold will be taxed.

Reforms to the taxation of in-kind benefits saw both increases and decreases. Indonesia broadened the scope of its tax on in-kind benefits. The Republic of Türkiye (hereafter 'Türkiye'), in response to the humanitarian crisis triggered by the recent earthquake, exempted all in-kind benefits provided by employers between 6 February 2023 and 31 July 2023 to service personnel whose spouses, children or parents have been affected, in addition to payments such as wages, premiums and bonuses, as well as cash benefits up to a certain limit. Lastly, Germany raised the tax-free allowance for some share-based compensation from EUR 1 440 to EUR 2 000.

Several jurisdictions introduced PIT measures to support families, while some wound them back

Five jurisdictions increased the generosity of PIT measures aimed at supporting families with children. Denmark raised its earned income tax credit for single parents. South Korea broadened the eligibility criteria and value of its Child Tax Credit, now allowing for a higher annual income threshold and increasing the credit amount per child. Israel increased its child tax credit by ILS 242 (EUR 60) a month for children aged 13-17 and ILS 484 for children aged 0-3. Greece adopted a tiered approach, offering larger tax credits for families with more dependent children. Ireland introduced incremental increases to various child- or dependent-related tax credits, including the Home Carer, Single Person Child Carer, and Incapacitated Child Tax Credits. Malesia increased its income tax exemption for childcare costs from MYR 2 400 (EUR 470) to MYR 3 000 per year.

In contrast, Estonia abolished some tax relief as part of a wider set of reforms aimed at broadening the PIT base and raising additional tax revenues. Specifically, it repealed the additional basic allowance for the second child and any subsequent children, which were previously set at EUR 1 848 and EUR 3 048 respectively, as well as the additional basic spouse allowance.

Jurisdictions also provided additional relief to the elderly and disabled

Several countries (Denmark, Lithuania, Malaysia, and Sweden) provided various PIT relief directed at the elderly and disabled. Denmark introduced a new earned income tax credit for seniors. Lithuania increased its non-taxable allowance for disabled taxpayers. Malaysia expanded its tax relief for medical treatment, special needs and parenting expenses. Latvia increased its PIT allowance for health and accident insurance premium. Sweden offered pensioners the same tax reductions that low- and middle-income earners receive, lowering the tax burden on the elderly. Some countries, however, wound back tax support in this area. Notably, Sweden increased the age limit for income tax reductions from 65 to 66 years. This change aligns the age threshold with the reformed pension system.

A small number of jurisdictions reformed taxes on self-employed

Some jurisdictions cut taxes on the self-employed. Macau (China) introduced several temporary measures aimed at easing financial burdens on unincorporated businesses and self-employed individuals. The reforms raised the standard tax deduction and exemption threshold for self-employed individuals from 25% to 30% and from MOP 95 000 (EUR 10 800) to MOP 144 000 (EUR 16 500) respectively. Ireland increased its earned income credit for self-employed workers. Latvia updated the tax rules so that self-employed taxed under the micro-enterprise regime can claim the basic allowance if they also earn income taxed under the standard PIT.

Other jurisdictions expanded taxation on self-employed workers, often in an effort to align the tax treatment of the employed and self-employed. In Albania, the tax reforms targeting self-employed professionals will mean that some self-employed workers will no longer be eligible for tax-free thresholds available to other businesses. Meanwhile, the Netherlands lowered its profit exemption for small and

medium-sized enterprises (SMEs) from 14% to 13.31% of profits and restricted the depreciation of buildings for tax purposes.

Greece and Israel introduced simplifying measures for the self-employed to increase compliance. Greece introduced a presumptive tax regime that takes into account the minimum wage and average annual turnover to impute a presumed tax base for the self-employed. The regime is expected to increase compliance and raise revenues. Israel will allow unincorporated businesses with turnover under NIS 120 000 (EUR 30 000) to deduct 30% of turnover from its income, instead of itemizing all expenses.

A number of jurisdictions used PIT provisions to promote housing affordability and environmental sustainability

Several European countries introduced measures aimed at making housing and rents more affordable as policymakers respond to housing crises coupled with higher costs of living. Ireland introduced a range of reforms, notably introducing a new residential landlord tax relief measure that allows for rental income up to EUR 3 0000 to be taxed at a lower rate in 2024 (the threshold is set to increase to EUR 4 000 and EUR 5 000 in 2026 and 2027). Ireland also significantly increasing its Rent Tax Credit from EUR 500 to EUR 750[3] and extended provisions for parents supporting children in rent-a-room accommodations (which will become effective retrospectively from 2022 to 2025). Finally, in addition to providing temporary mortgage interest relief, Ireland extended its Help-To-Buy policy, until 2025, which provides PIT relief to first home buyers of 10% of the purchase value of a home (capped at EUR 30 000). Luxembourg increased the cap on deductible interest charges for owner-occupied housing, with additional increases available for households with qualifying children. The Slovak Republic increased its tax credit on mortgage payments for individuals aged 18 to 35 to support young homeowners. Spain enhanced rent payment allowances, providing additional support for renters. Sweden temporarily raised the ceiling of tax credits for building repair, maintenance and improvement costs. Portugal temporarily exempted in-kind benefits associated with employer-provided accommodation from PIT until 2026.

A number of countries used PIT increases and decreases to promote environmental sustainability. South Africa introduced a rooftop solar tax incentive, encouraging investing in solar photovoltaic (PV) panels. Australia revised its Electric Car Discount to exclude plug-in hybrid electric cars from the fringe benefits tax exemption, to incentivise the adoption of fully electric vehicles. Meanwhile the Netherlands wound back its PIT credits for green investments by half to raise more PIT revenues.

The tax treatment of foreign workers saw a range of reforms

Countries adopted varying strategies regarding tax incentives for foreign workers with some increasing tax incentives and others phasing them out. Portugal ended its special tax regime for non-habitual residents, which had offered favourable tax treatment to expatriates and was introduced following the global financial crisis. At the same time, however, Portugal introduced a provisional measure that offers a 50% tax allowance on employment income until 2026 for individuals who have not been residents for the preceding five years. The Netherlands is phasing out its 30% tax exemption on income of skilled foreign employees. Conversely, Finland extended the duration of its Expatriate Tax-at-Source Regime from four to seven years, increasing the period during which foreign skilled workers can benefit from preferential tax rates. Malaysia also reformed and extended its Returning Expert Program that was initially introduced in 2011 to encourage educated Malaysian professionals to return to Malaysia.

Changes to the taxation of capital income in 2023 were limited

The Netherlands made several significant changes to its taxation of capital income, raising its top marginal tax rate on income from interest from 31% to 33% (box 2) and its rate on taxable income from savings and investment (box 3) from 32% to 36%. It also announced that the tax-free capital income

threshold will not be corrected for inflation in 2024. It also introduced lower tax rates on certain types of rental income.

Canada made amendments to taxation on Employee Ownership Trusts (EOT) aiming to assist employees become owners in the businesses they work for. They introduced a new CAD 10 million (EUR 6 million) exemption on capital gains realised on a qualifying business transfer to an EOT. They also introduced more generous capital gains rules, including extending the five-year capital gains reserve period to ten years, thereby allowing taxpayers to better defer realization of capital gains until the year those sale proceeds are received, and exempting EOTs from the 21-year deemed disposition rule.

Canada also proposed several reforms to its Alternative Minimum Tax (AMT) on high-income individuals. The AMT exemption would increase from CAD 40 000 (EUR 27 000) to the start of the fourth federal tax bracket, CAD 173 205 (EUR 117 139) for the 2024 tax year, and the AMT rate would increase from 15% to 20.5%. For AMT, capital gains and stock options would effectively be included in taxable income at 100% instead of 80%. 30% of the capital gains on donations of publicly listed securities would be included in taxable income. Lastly, most deductions and most non-refundable tax credits that can be credited against the AMT, would be reduced by 50%.

Table 3.3. Changes to tax rates on personal capital income

	Rate increase		Rate decrease	
	2022	2023 or later	2022	2023 or later
Dividend or interest income/equity or bond investment	ESP, COL, NLD, NOR, ROU	CAN, NLD, TUR	SVN	
Capital gains	ESP, COL, NLD	AUS[1], CAN, NLD	SVN	
Rental income		CAN, NLD		
Tax treatment of pensions and savings account		AUS		NOR, SWE

Note: 1 denotes announcement
Source: OECD Annual Tax Policy Reform Questionnaire

Table 3.4. Changes to personal capital income tax bases

	Base broadening		Base narrowing	
	2022	2023 or later	2022	2023 or later
Dividend or interest income/equity or bond investment		CAN, NLD	JPN, SVN	CAN, DNK, MAC[1], NLD
Capital gains	AUT, CHL, TUN	AUS[2], CAN, NLD, SWE	CAN, JPN, NZL, PER, SVN	CAN, BGR
Rental income	CHL, CAN	CAN, NLD		CAN, LUX
Tax treatment of pensions and savings account	NOR	NOR	DEU, JPN, NLD	BRB, CAN, KEN, LUX[1], NIG, URY

Note: “1” denotes a temporary reform, 2 includes policies that have been announced but not yet enforced
Source: OECD Annual Tax Policy Reform Questionnaire.

Some countries made reforms to pension taxation. Norway, for example, introduced several tax simplification measures for pensions**.** Spouses' survivor pensions were reclassified from being taxed as pensions to being taxed as wages, and child survivor pensions were reclassified to being taxed as capital income rather than pensions. These reforms are expected to be revenue neutral, with lower marginal tax

rates but with a broader tax base. Sweden lowered taxes on pensioners to match similar changes made to low- and middle-income earners. Barbados increased its PIT allowance for pensioners from BBD 40 000 (EUR 37 000) to BBD 45 000 (EUR 42 000). Uruguay increased its social security assistance tax threshold on pension income and Nigeria introduced tax deductions for life insurance premiums.

Three countries enhanced PIT concessions on savings. Denmark elevated the cap on stock savings accounts. Kenya introduced a new deduction of 15% or KES 60 000 (EUR 420) (whichever is lower) for post-retirement medical funds. To improve access to the Registered Disability Savings Plan, Canada extended (i.e., by three years) and broadened eligibility for, the qualifying family member measure. Meanwhile, Australia reduced its tax concessions for high-value superannuation accounts exceeding AUD 3 million, effectively doubling the tax rate from 15% to 30% on the excess amount.

Australia and Sweden both raised taxes on non-resident capital income. Australia will increase the foreign resident capital gains withholding tax rate from 12.5% to 15% and reduce the tax-exempt withholding tax threshold from AUD 750 000 (EUR 450 000) to zero. Sweden introduced measures to reduce differences between the withholding tax treatment of dividends and certain share repurchases and redemptions. The change treats the allocation of redemption rights to shareholders as a dividend for tax purposes so that it can levy withholding taxes on transfers to non-residents which was not possible before the reform.

Most reforms sought to increase social security contributions

Jurisdictions largely implemented measures that broadened the SSC base or increased SSC rates. Rate increases and base broadening measures were mostly introduced to raise revenues and expand social protection coverage. Decreases to SSC rates mainly sought to support households with cost-of-living increases, and support consumption and employment. Very few countries introduced base narrowing measures.

Amidst challenges posed by population ageing and rising healthcare costs, many jurisdictions raised SSC rates

The trend of SSC rate hikes further increased in 2023 to support the financial sustainability of the SSC system or broaden the scope of their social protection spending. Slovenia announced that it will increase SSC rates by 1 percentage point for both employee and employer contributions because of the introduction of a new long-term care contribution. Additionally, Slovenia also replaced its voluntary additional health insurance scheme with a compulsory health contribution of EUR 35 per month. The Slovak Republic, Germany, the Netherlands, and Anguilla all increased their SSC rates across a number of categories to cover increasing costs associated with healthcare, disability schemes and occupational insurance. The Slovak Republic increased employer SSC for healthcare by 1 percentage point from 10% to 11% and slightly decreased its pension SSC rate. Anguilla is increasing its SSC rates by 0.75 percentage points from 2024 to 2026 for employees, by 1 percentage point from 2024 to 2027 for employers, and by 1.25 percentage points from 2024 to 2028 for the self-employed. Czechia reintroduced employee health contributions at a rate of 0.6% and broadened the SSC base for the self-employed. Germany increased its SSC rates for its long-term care insurance but cut rates for people with children under the age of 25. The Netherlands increased employer SSCs for its disability fund.

Five jurisdictions reduced their SSC rates, either on a permanent or temporary basis, to support employment and, indirectly, consumer purchasing power. In response to rising living costs, Italy continued to make additional temporary decreases to its employee SSCs, lowering the SSC rate by 7 percentage points for employees with gross income below EUR 25 000 and by 6 percentage points for employees with gross income up to EUR 35 000 euros. Meanwhile, Norway introduced a targeted reduction of its employee SSC rate, slightly lowering the tax burden on wages and self-employed income to support

employment and skill enhancement, while aiming to compensate the revenue loss through a compensatory tax adjustment for higher earners (discussed above). As discussed in the paragraph above, Germany also shifted the SSC burden away from people with children under the age of 25. Bosnia and Herzegovina took steps to support the competitiveness of its export-oriented textile, leather, and footwear industries by implementing a reduction in both employee and employer SSC rates. The United Kingdom announced that it is cutting the main rate of employee National Insurance by 2 percentage points from 10% to 8% from 6 April 2024 in addition to further cuts to the main rate of the self-employed.

Table 3.5. Changes to social security contribution rates

	Rate increase		Rate decrease	
	2022	2023 or later	2022	2023 or later
Employer SSCs	DEU, JPN, LVA[1], MEX	AIA, CZE, DEU, NLD, SWE, SVK, SVN[2],	AUT, FRA, TUN	BIH
Employee SSCs	BEL, DEU, JPN, MEX	AIA, CZE, DEU, SVN[2]	ARG, ITA[1], ROU	BIH, DEU, GBR, NOR, ITA[1],
Self-employed		AIA, GRC	FRA	NOR, GBR
Payroll taxes		DEU, SVN, SWE		HRV

Note: “1” denotes a temporary reform, 2 includes policies that have been announced but not yet enforced.
Source: OECD Annual Tax Policy Reform Questionnaire.

Table 3.6. Changes to social security contribution and payroll tax bases

	Base broadening		Base narrowing	
	2022	2023 or later	2022	2023 or later
Employer SSCs	BGR, ROU	BGR, AUS, GRC	SVK, SWE, USA	ARG[1]
Employee SSCs	BGR, LVA, SVK	BGR, CZE, ROU, SVN, GRC	ISR, NOR, SVK, SWE	
Self-employed	BGR, ESP	BGR, GRC		
Payroll taxes				

Note: “1” denotes a temporary tax reform.
Source: OECD Annual Tax Policy Reform Questionnaire.

Jurisdictions mainly introduced SSC base broadening measures

In 2023, several jurisdictions broadened their SSC base. Czechia broadened the SSC base for self-employed individuals from 50% to 55% of income, accompanied by an increase in the minimum SSC. Greece increased the ceiling to the earnings that are subject to SSCs. Romania broadened its healthcare contribution base to include in-kind benefits (meals and holidays vouchers) and certain sectors (construction, agriculture and food industry). In a marked contrast to 2022, only one country, Argentina, implemented SSC base narrowing measures. Argentina extended certain exemptions related to employer SSCs in the health sector and introduced an additional allowance for low-income workers in the private sector.

3.3. Corporate income taxes and other corporate taxes

The downward trend in statutory CIT tax rates seems to have halted with far more jurisdictions implementing rate increases than decreases in 2023, for the first time since the first edition of the Tax Policy Reforms report. The CIT rate increases observed were of significant magnitude. Despite that, tax

base narrowing measures outnumbered tax rate increases. With statutory tax rates at historic lows, responses suggest that countries are choosing base narrowing measures rather than rate decreases where they choose to offer more favourable CIT treatment to companies.

Jurisdictions that responded to the tax policy reforms questionnaire cited raising revenues as the most common rationale for reform. Boosting economic growth and supporting investment were also among the most cited objectives for adopting CIT measures in 2023. This can be considered in light of the complex macroeconomic conditions faced by countries after the COVID-19 pandemic, where countries have faced conflicting policy objectives of supporting growth while rebuilding fiscal balances.

Many jurisdictions have further increased the generosity of their tax incentives to support investment and innovation. The use of tax incentives to encourage investment in innovative technologies and R&D remained common in 2023, as has been the case over the last decades.

An increasing number of jurisdictions used tax incentives to encourage environmentally friendly investment decisions and to support the transition to less carbon-intensive technologies. This was the case not only in high-income countries but also in a number of upper-middle income countries. The tax incentives aimed at supporting the clean energy transition were mostly expenditure-based tax incentives that are targeted to specific types of investments.

Significant progress has been made towards implementing the Global Minimum Tax (GMT) with the goal of ensuring a global floor on the effective tax rates of large MNEs. As of April 2024, 60 jurisdictions have announced publicly that they are taking steps towards introducing corporate income taxes or implementing the Global Minimum Tax in their domestic law. Among those, 36 jurisdictions took steps towards an application of the Global Minimum Tax starting in 2024, and some expect to implement legislation taking effect from 2025.

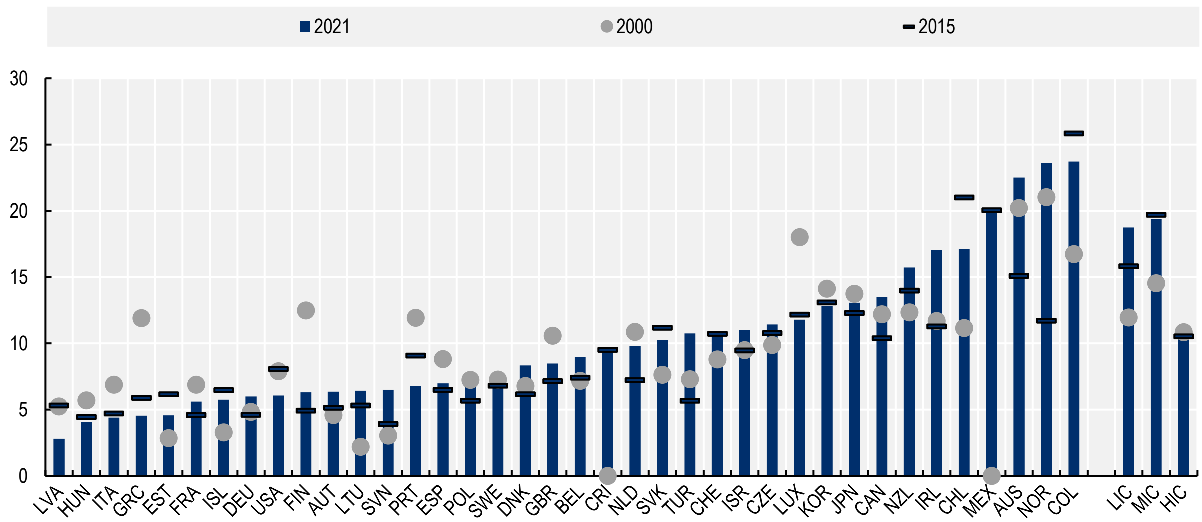
A number of countries implemented corporate tax administration reforms to simplify the tax system, increase tax compliance, or comply with international standards. This was mainly the case for developing countries and may be seen in context of broader BEPS implementation.

Persistent growth in corporate income tax (CIT) revenues

In low-income countries (LICs) and middle-income countries (MICs), the proportion of average corporate tax revenues as a percentage of total tax revenues saw a significant increase from 2000 to 2021. In LICs, the revenue share rose from 12% to 18.8%, and in MICs, it increased from 14.6% to 19.4% (Figure 3.4). Meanwhile, average CIT revenues as a share of total revenues remained fairly constant for high-income countries (HICs), increasing from 10.9% in 2000 to 11.1% in 2021. These averages, however, conceal significant variation among jurisdictions, showcasing diverse contributions of CIT to the total tax revenues.

Figure 3.4. Revenues from corporate income tax in OECD countries, 2000, 2015, 2021

CIT revenues as a percentage of total tax revenues



Note: Corporate income tax revenues refer to tax category 1200 under the OECD classification of taxes. Tax revenues are the sum of taxes collected by all levels of government. See Revenue Statistics Interpretative Guide for more detail. The low- (LIC), middle- (MIC), and high-income country (HIC) averages are representative of the 120 countries that provide tax revenue data to the OECD. For Norway, the CIT revenues include both ordinary CIT and special taxes on hydroelectric and petroleum revenue.
Source: OECD Global Revenue Statistics Database

StatLink https://stat.link/7s4o0p

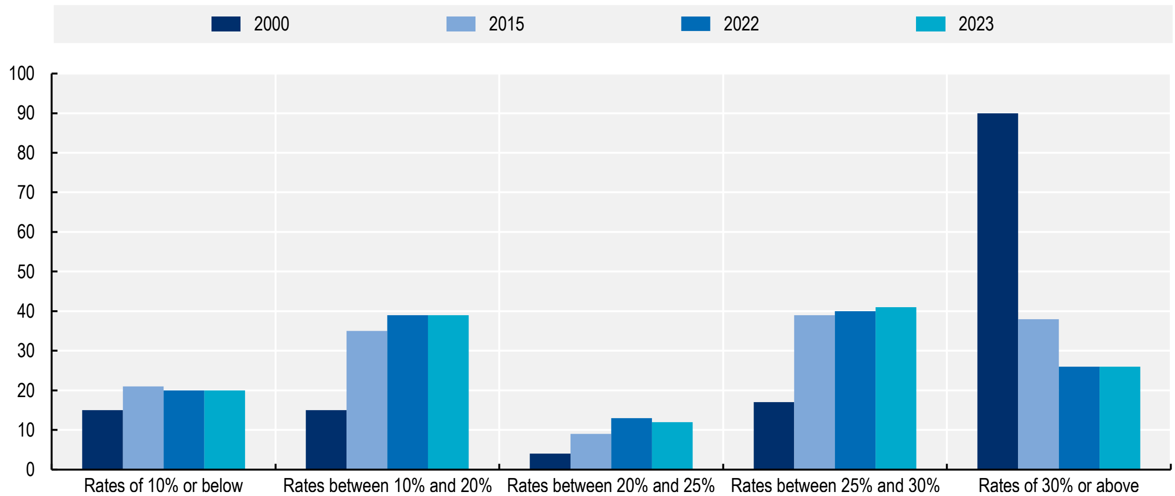
Discrepancies in the ratios of CIT to total tax revenues remain pronounced across jurisdictions. Within OECD countries, CIT contributions varied from accounting for 2.8% of total tax revenues in Latvia to 23.7% in Colombia. The disparity in CIT revenues as a share of total tax revenues can be attributed to several factors, including differences in statutory CIT rates, the size of the CIT base, the prevalence of corporate entities within a jurisdiction, and the degree to which countries raise revenues from alternative taxes.

CIT rates have stabilised after decades of decline

Standard corporate income tax rates

The decline in statutory CIT rates observed for the last two decades appears to have halted in 2023 (Figure 3.5). Substantially more CIT rate increases then decreases were announced or legislated by jurisdictions in 2023. Several jurisdictions also introduced corporate income taxes. Despite this, tax rates remain at historic lows in many jurisdictions (OECD, 2023[2]) compared to long-term averages. Across the 141 jurisdictions covered in the OECD Corporate Tax Statistics Database, the average combined (central and sub-central government) CIT rate for all covered jurisdictions was 21.1% in 2023 compared to 28.2% in 2000 but compared to 20.0% in 2022.

Figure 3.5. Distribution of jurisdictions by combined statutory CIT rates



Note: Data were available for 138 OECD/G20 Inclusive Framework jurisdictions in 2023.
Source: OECD Corporate Tax Statistics Database

StatLink https://stat.link/1v4ikj

Only one country introduced a standard rate cut in 2023. In Curaçao, as of 1 January 2023, the applicable CIT rate will be 15% on profits up to ANG 500 000 (EUR 250 000), while profits above this threshold will be taxed at 22%. This new tax rate schedule, which applies to all companies regardless of their size and aims at supporting investment, will effectively reduce the tax rate paid by all corporations.

Six jurisdictions implemented CIT rate increases in 2023. These CIT rate increases were substantial, with four of the six countries raising the rate by at least 2 percentage points. Most of these reforms were adopted to raise additional revenue and consolidate governments' fiscal positions. Czechia and Estonia increased their standard rates by 2 percentage points, from 19% to 21% and from 20% to 22% respectively. Slovenia increased its CIT rate by 3 percentage points temporarily for five years starting in 2024, from 19% to 22%. This reform was motivated by a need to raise government revenue to finance the reconstruction measures adopted to support regions affected by severe floods in August 2023. Türkiye increased all CIT rates by 5 percentage points, resulting in a 25% rate for most companies and a 30% rate for companies in the financial sector.

Table 3.7. Changes in corporate income tax rates

	Rate increase		Rate decrease	
	2022	2023 or later	2022	2023 or later
Standard CIT rate	BEL, COL, NLD	ARE, BRB, COL, CZE, EST, ROU, SVN, TUR	FRA[1], KOR, ZAF	CUW
SME CIT rate		BRB, ROU	CAN[2], CHL, COL, ESP	PRT, SVK
Mining		CHL		

Note: Countries in brackets are those that have announced reforms but are yet to implement them.
1. This also includes the removal of the sub-national tax "contribution sur la valeur ajoutée des entreprises" over two years, applied to companies with profits above EUR 500 000.
2. The CIT rate decrease in Canada, announced in 2021 at the federal level, applies to zero-emission technology manufacturing profits, reducing the general corporate income tax rate and small business income tax rate on eligible profits to 7.5% (from 15%) and to 4.5% (from 9%), respectively, for taxation years beginning after 2021 and before 2029.
Source: OECD Annual Tax Policy Reform Questionnaire.

In response to international business tax developments, some countries introduced a corporate tax system. As discussed in last year's edition of this report, the United Arab Emirates introduced a federal corporate tax on business profits that came into effect as from the 2023 fiscal year (that starts on 1 June 2023) onwards. While the law introducing this new CIT system was issued in October 2022, several implementation decisions giving effect to specific elements of the CIT law were issued during the course of 2023. Barbados, which had no CIT system, announced it would introduce a 9% CIT rate starting in 2024. This was stated as being a way to raise more revenue and a response to the implementation of the Global Minimum Tax (GMT) worldwide. At the same time, Barbados also announced that a preferential CIT regime for SMEs with a 5.5% tax rate would be put in place. This rate would apply from the 2024 fiscal year to companies registered as small businesses[4] with a gross income below USD 2 million (EUR 1.8 million).

A number of countries took steps to adopt the Global Minimum Tax (GMT) on profits of MNE groups with revenue above EUR 750 million (see Box 3.3). This includes European countries following the European Council Directive 2022/2523 of 14 December 2022, but also a large number of high-, middle, and low-income countries across the world.

CIT rates for Small and Medium-Sized Enterprises

Two countries decreased the CIT rate applicable to Small and Medium-Sized Enterprises (SMEs)[5] and one country extended a temporary reduction. Portugal reduced its CIT rate for companies that qualify as startups[6] to 12.5% on the first EUR 50 000 of profits. The Slovak Republic also decreased its tax rate for small firms. Firms with income below EUR 60 000 are now subject to a 15% rate, reduced from 21%. The threshold to benefit from this regime was increased from EUR 50 000. Chile extended its temporary reduction of the CIT rate by two years.

Romania increased the rate applicable to small taxpayers. Romania introduced several tax rate hikes and the elimination of certain tax incentives in its Law on Fiscal Budgetary Measures to raise revenue. This includes an increase of the rate applicable to micro-enterprises to 3% if their revenues exceed EUR 60 000 or carry out activities in specific sectors. Other micro-enterprises will continue to be subject to a 1% rate.

Other business taxes

In 2023, several EU countries introduced or increased taxes levied on banks or other financial institutions. Such taxes are generally collected on top of ordinary corporate taxes and can be applied to different tax bases. Originating in the wake of the global financial crisis, interest in taxes levied on financial institutions has resurged, driven by the need to generate revenue during the COVID-19 crisis and amid persistent high inflation in the past year. Belgium, Ireland, and the Netherlands increased the rates of taxes on banks, while the Slovak Republic broadened the application and increased the rate of its special tax on the banking and financial sector. Latvia, Lithuania and Slovenia introduced new taxes on the profits of banks and credit institutions. In Latvia, this consisted of an annual CIT surcharge of 20% for credit institutions and consumer credit service providers, which is calculated on the basis of financial data for the previous tax year. In Lithuania and Slovenia, these new taxes are temporary. In Lithuania, the introduced tax is a temporary solidarity contribution paid by credit institutions between May 2023 and June 2025. In Slovenia, a tax was introduced on the balance sheet (i.e., on total assets) of banks at a 0.2% rate, with a cap on tax liability equivalent to 30% of the taxpayer's operating profit. This surtax will apply between 2024 and 2028.

In its 2023 Budget, Canada announced the details of the 2% tax on share buybacks, that was proposed in its 2022 Fall Economic Statement. The proposed tax would apply as of January 1, 2024, to the annual net value of repurchases of equity by public corporations and certain publicly traded trusts and partnerships in Canada.

Malaysia introduced a new capital gains tax, which will be levied on companies, limited liability partnerships, cooperatives and trusts from 2024. Before, capital gains in Malaysia were generally not included in the CIT base and thus not subject to CIT. A 10% rate will be applied on gains arising from the disposal of capital assets situated in Malaysia. For gains arising from the disposal of capital assets situated outside Malaysia but remitted into the country, the rate will vary between 0% and the statutory CIT rate of 24%. The Bahamas repealed and replaced its Business Licence Act expanding the scope of entities covered under the regime.

Four other countries introduced new taxes to increase government revenue. In Romania, an additional 1% tax on turnover entered into force from January 2024 for companies that had turnover over EUR 50 million in the previous fiscal year and a tax liability lower than the minimum tax in the current fiscal year. Colombia increased the level of its withholding tax levied on all income, and in particular on income from oil and coal, to collect extra revenues. Norway legislated a new tax on onshore wind farms in order to collect more tax revenue. This resource rent tax is designed as a cash flow tax with immediate deduction of new investments and will apply to wind farms comprised of more than five turbines, or with a total installed capacity of 1 MW or more. Chile introduced a "Mining Royalty" tax aimed at large copper mining companies. This tax applies a 1% charge on annual sales from operations that produce over 50 000 metric tons of fine copper. It also features a progressive margin-based component, with rates ranging from 8% to 26% depending on the profitability of the mining operations. The legislation caps the combined tax burden from the CIT and the Mining Royalty at 46.5% of the adjusted operational mining income. The revenue from this tax supports a newly established Regional Development Fund, which finances regional governments and local investment projects.

Intellectual property regimes

None of the jurisdictions that responded to the tax policy reforms questionnaire reported altering the tax rates applied to intellectual property (IP) regimes in 2023. As has been the trend for a number of years, jurisdictions have modified IP regime bases (Appelt, González Cabral and Hanappi, 2023[3]). Four IP regimes were reviewed in 2023 (OECD, 2023[4]) as part of the BEPS Action 5 peer review process, two of which were found to be non-harmful (Hong Kong and United Arab Emirates) and two were abolished (Albania and Armenia).

Jurisdictions have continued to narrow tax bases

As has been the case since the first edition of the tax policy reforms report, the number of base narrowing measures adopted in 2023 far exceeded the number of base broadening measures. Jurisdictions commonly cited boosting growth, stimulating investment (especially in more environmentally friendly technologies), and encouraging innovation as reasons for reforms.

Capital allowances and general tax incentives

Many jurisdictions sought to encourage investment by increasing the generosity of their capital allowances or other central features of their tax system. Several countries increased the depreciation rates or modified the recovery schedule for various assets. For example, The United Kingdom introduced permanent full expensing (100% first year allowance) for main rate capital assets and a 50% first year allowance for special rate assets from April 2023. Malaysia introduced a 40% initial allowance (compared to 20% before the reform) for expenditure on information and communication technology equipment and for computer software. Jurisdictions also increased the general thresholds below which profits are exempt from CIT (Macau (China)), increased the thresholds for allowable deductions (Norway), and expanded the scope of their standard deductions (Latvia). In Macau (China), the standard income exemption of CIT was increased from MOP 32 000 to MOP 600 000 (around EUR 36 000 to EUR 68 000). Norway rose the limit

on direct deductions of expenses and residual balances from NOK 15 000 to NOK 30 000 (EUR 1 500 to EUR 3 000).

Latvia announced that it will categorise expenses on fuel and luxury cars as business expenses if the car has been in the taxpayer's possession for over 60 months, from 1 January 2024. Previously, all costs associated with luxury vehicles were considered non-business expenses, treated as a profit distribution[7], and therefore subject to a 20% tax rate.

Table 3.8. Changes to corporate tax bases

	Base broadening		Base narrowing	
	2022	2023 or later	2022	2023 or later
Capital allowances and general incentives	BEL, BEN, COL, MKD, NLD	BEL, NLD, NZL, MYS, NGA	AGO, CAN, CZE, DEU, DNK, FIN, GBR, ITA, KEN, MUS, TTO, USA	GBR, ITA, JPN, LVA, MAC, MEX, MYS, NOR, PER, PRT, TUR, URY
Environmentally related tax incentives			AGO, CAN, CZE, PRT, USA	AUS, CAN, CZE, ESP, FRA GBR, IRL, MYS, PER, ZAF
R&D tax incentives and patent box regimes			CAN, FIN, GBR, JPN, KOR, PRT, TUN	GBR, IRL, JPN, MAC
SME-related tax base changes	GBR	PER, ROU	AGO, BEN. CAN, DEU, MUS, POL, PRT, URY, TTO	AUS, DEU, FRA, GBR
Other business tax incentives	CHL, KEN, NOR, USA	ALB, MUS, KEN	AGO, CAN, IRL, ITA, KEN, LVA, POL, TTO, UKR	ESP, (IRL), MEX, BRB, HRV, KEN, MUS, MYS, PER, TTO
Loss carryforward and carryback provisions	PRT, ZAF		KOR	
Notional interest deductions	BEL	ITA		

Note: Countries in brackets have only announced reforms.
Source: OECD Annual Tax Policy Reform Questionnaire.

Jurisdictions also aimed to stimulate investment and boost growth via new or more generous tax incentives. Japan, for example, strengthened its tax credit for promoting wage increases. This tax credit values the increase in the total salary of domestic employees relative to previous years and is available to companies of all sizes and in all sectors, with a maximum 35% rate for large and medium-sized companies and a 45% rate for SMEs. Japan also established a 10-year tax credit for the production of goods deemed as being of national strategic importance in areas related to the green and digital transformation, including storage batteries, green steel, green chemicals, sustainable aviation fuel, and semiconductors. This tax credit relates to the lower amount of either the acquisition costs of qualifying assets or the sales of goods and will be capped at 40% of CIT each year. In Uruguay, the exemption threshold for taxpayers in the agricultural sector was increased to UYU 14.86 million (EUR 350 000) from UYU 11.9 million (EUR 280 000) before. Türkiye legislated a number of new provisions and amendments to its tax code over the course of 2023. As mentioned above, this included an increase in CIT rates, but base narrowing measures were also introduced, including a 5% reduced rate (compared to 1% before) for companies engaged in exporting activities. Mexico established various tax incentives for companies located in specific zones designated for development and well-being, including a 100% tax credit on their income tax for the first three years of operation, a 50% credit in the subsequent three years[8], and an immediate depreciation of new tangible assets during the first six years of operation. Mexico also legislated tax allowances for companies that establish or relocate in the Inter-Oceanic development region. Lastly, Peru introduced an enhanced deduction equal to 150% of basic remuneration for companies that hire new workers under 29 years old.

Some jurisdictions increased the stringency of baseline provisions or removed some broadly targeted incentives to raise revenue. Nigeria modified some baseline provisions to increase its CIT base, including income from digital assets in the tax base and reducing the limit on losses carried-forward to five years. Belgium and New Zealand removed some allowable deductions. The Netherlands made the conditions for investment funds to receive concessional tax treatment stricter. Fiscal investment institutions, which are subject to a 0% CIT rate, can no longer directly invest in Dutch real estate without otherwise being subject to the regular 25.8% rate[9]. After the reform, exempt investment funds can only be eligible for the Exempt Investment Institution regime if they are regulated institutions under the Dutch Financial Supervision Law.

R&D and innovation tax incentives

A number of jurisdictions increased their support for research and development (R&D) and innovation by introducing new tax incentives, increasing the generosity of existing ones, and extending the duration of others. However, jurisdictions reduced the generosity of income-based tax incentives. Ireland increased its R&D corporation tax credit from 25% to 30% of the qualifying expenditure incurred by the company. The credit is then available in three instalments, and the company must specify for each instalment whether the credit should be offset against its tax liability or paid to the company. The maximum value of the first instalment was also increased from EUR 25 000 to EUR 50 000. The aim is to provide a higher cash-flow benefit for smaller R&D projects and encourage more companies to participate in the regime. At the same time, Ireland also increased the rate of its income-based tax incentive regime (Knowledge Development Box) from 6.25% to 10%. Both changes are introduced to adapt Ireland's tax incentives to the introduction of the GMT which affects certain types of tax incentives differently (OECD, 2022[5]). Singapore and Macau (China) both increased the rate of their enhanced tax allowances for R&D expenditure. Lastly, Japan established a new intellectual property (IP) regime (Innovation box) which allows companies to deduct 30% of transfer and license income from income in relation to intellectual property rights researched and developed in Japan. IP rights include patents and copyrights of Artificial Intelligence related programs. The goal is to strengthen the competitiveness of Japan as an R&D centre by promoting R&D capital accumulation.

These changes to R&D and innovation tax incentives are a continuation of an ongoing trend of governments using tax policy to incentivise business investment in these activities, though there is some evidence that the introduction of new measures has slowed. The number of OECD countries offering income-based tax relief for R&D expenditures increased from 20 in 2000 to 33 of 38 OECD countries in 2022 (OECD, 2023[2]). The average implied marginal R&D tax subsidy has markedly increased across OECD countries between 2000 and 2023, reflecting the introduction of new R&D tax incentives and the increasing generosity of existing R&D tax relief provisions over time. However, while still exceeding the pre-COVID-19 levels by some margin, the OECD average tax subsidy rate stabilised in 2022. Implied subsidies are typically larger on average for SMEs due to targeted preferential tax treatment towards these smaller businesses, but there are notable differences in the implied subsidy rates on R&D expenditures for large, profitable firms across countries and years. In 2022, the largest preferential tax treatment for profitable and marginal R&D investments was offered in Portugal, France, and Poland. For SMEs, the highest implied marginal R&D tax subsidy rates were highest in Colombia, Iceland, and Portugal (OECD, 2023[2]).

Interest deductions

Italy abolished its allowance for corporate equity provision (ACE), effective from 2024. However, any remaining credit can be carried forward without time limit until it is completely used. Previously, the ACE allowed for a deduction from taxable profit based on the net increase in equity, multiplied by a rate of

1.3%. Canada introduced new restrictions on net interest and financing expense deductions claimed by corporations and trusts based upon a percentage (40% in 2023, 30% as of 2024) of tax-EBITDA.

Environmentally related tax incentives

An increasing number of jurisdictions implemented base narrowing measures to incentivise green investment and support the transition to a less carbon-intensive economy. This trend was most prominent in high or upper-middle income countries where incentives often sought to promote investment in electric vehicles (EVs), the clean energy transition or clean technologies. Czechia and Spain both introduced an accelerated depreciation incentive for EVs. In Czechia new electric vehicles (EVs) purchased between 2024 and 2028 can be depreciated over two years instead of the previous five[10] years. In Spain, new electric vehicles and investments in recharging facilities may be depreciated at twice the maximum rate between 2023-2025. Ireland extended the duration of its accelerated capital allowance for energy efficiency equipment. Peru and South Africa expanded the benefits offered for renewable energy: Peru, introduced accelerated depreciation for tangible assets used in the production of renewable energy, with an annual rate of 20%. In South Africa, the 125% enhanced deduction allowed for all renewable energy generation projects was continued.

In its 2023 Budget, Canada announced further details of a set of generous refundable investment tax credits and the expansion of existing ones to promote a clean economy and the adoption of low-emission technologies. Among them is a 15% refundable credit to support the adoption of certain clean electricity technologies, a refundable tax credit for clean hydrogen with levels of support varying between 15% and 40% of eligible project costs, a 30% refundable tax credit to support business investments in certain clean technologies, and a 30% refundable tax credit to support the production of certain clean technologies and critical minerals. Canada also expanded its investment tax credit for carbon capture, utilisation, and storage (CCUS), with the credit equal to between 37.5% to 60% of eligible CCUS projects expenses. Importantly, while multiple tax credits could be available for the same investment, businesses would generally only be able to claim one of the incentives.

France and Japan both introduced tax credits to boost investment in clean infrastructure. In its 2024 Finance Law, France established a new tax credit in favour of the green industry designed to encourage investments in four areas related to the clean energy transition: batteries, wind power, solar panels, and heat pumps. The value of the credit will be comprised between 20% and 45% of the investments in tangible and intangible assets related to the production of battery cells and modules, wind turbines, solar panels and heat pumps, and the production or recovery of the critical raw materials needed to produce them. As mentioned above, Japan established a new tax credit for the production of goods deemed of national importance, including green steel, green chemicals, EVs, and sustainable aviation fuel.

Lastly, in its 2023 Budget, Malaysia extended and expanded its wide array of tax incentives for green investment, including the Green Technology Tax Allowance and the Green Technology Tax Exemption. They respectively provide a 100% tax allowance for the purchase and use of green technology assets or investment in green technology projects, and a 100% tax exemption for qualifying green technology service providers. According to the Malaysian green technology tax incentive guidelines, green technologies are defined as “the development and application of products, equipment and systems used to conserve the natural environment and resources, which minimises and reduces the negative impact of human activities”.

SME-related tax base changes

Several OECD jurisdictions have taken steps to expand support to SMEs and young firms. Australia has announced that it will increase the immediate expensing threshold to AUD 20 000 (EUR 13 200) for small businesses. Small businesses would thus be able to immediately deduct the full costs of eligible assets costing less than AUD 20 000 that are first used or installed in the 2023-24 fiscal year. An additional

20% deduction would also be available in 2023-2024 for eligible businesses that install assets that support electrification and more efficient use of energy, with an increased maximum bonus deduction of AUD 100 000 (EUR 66 000). Germany expanded the differential taxation scheme for employee equity plans in start-ups and SMEs such that taxation will be postponed until the sale of the shares, the termination of the work contract or after 15 years after the assignment of participation. The United Kingdom expanded the scope of its support for R&D intensive, loss-making SMEs. More specifically, the threshold to be considered R&D intensive will be reduced from 40% to 30% of total expenditure, allowing approximately 5 000 extra SMEs to qualify for an enhanced rate of relief. The government will also introduce a one-year grace period, so that companies that dip under the 30% qualifying R&D expenditure threshold will continue to receive relief for one year.

Peru announced it would remove two of the three tax regimes targeted at small businesses (*Régimen Especial del Impuesto a la Renta*, RER, and *Régimen MYPE Tributario*, RMT). Taxpayers benefiting from theses regimes would automatically switch to the general CIT regime. The remaining SME regime has the lowest income threshold, and hence corresponds to the one with the narrowest taxbase but would be made more flexible. To balance this out, the government also announced that a 20% enhanced deduction of payroll expenses would be introduced for smaller taxpayers subject to the general CIT system. The aim of these measures is to incentivise business formalisation and simplify the tax system.

Many countries have prepared legislation ahead of implementing Pillar II of the global tax agreement

In October 2021, members of the Inclusive Framework agreed on a Two-Pillar Solution to reform the international tax framework in response to the challenges of the digitalisation of the economy and ensure that MNEs pay a fair share of tax wherever they operate and generate profits. Under Pillar One of the agreement, more than USD 200 billion of profit from around 100 of the world's largest and most profitable MNEs would be reallocated to market jurisdictions (Amount A), along with a streamlining of the transfer pricing rules for routine marketing and distribution activities (Amount B). Under Pillar Two of the agreement, a global minimum tax, set at an effective rate of 15%, with an exclusion for a return on assets and payroll, will be introduced. In addition, a Subject to Tax Rule will allow LICs and MICs to levy a top-up tax on certain undertaxed payments. OECD analysis estimates that the reallocation of taxing rights from lower to higher taxed jurisdictions could raise an additional USD 17.4-31.7 billion revenues annually (averaging across the 2017-2021 period) (O'Reilly et al., 2023[6]). The GMT of Pillar Two is expected to increase taxation on currently low-taxed profit, raising global CIT revenues by USD 155-192 billion (Hugger et al., 2024[7]).

Further progress has been made towards implementing the Two-Pillar Solution. The Inclusive Framework members agreed on an *Outcome Statement on the Two-Pillar Solution to Address the Tax Challenges Arising from the Digitalisation of the Economy*, in July 2023, which recognises the significant progress made over more than 20 months of negotiations and summarises the package of deliverables developed since 2021. On Pillar One, while negotiations are still ongoing, the text of the Multilateral Convention on Amount A (OECD, 2023[8]) was released, and the report on Amount B of Pillar One (OECD, 2024[9]) was released in February 2024. On Pillar Two, in 2023 the OECD published further documentation on the implementation of the Global Anti-Base Erosion (GloBE) rules, implementing the Global Minimum Tax, including French and German translations of the rules (OECD, 2021[10]), as well as new administrative guidance. A minimum tax implementation handbook was also published in October 2023 to provide a high-level entry point into the overall design and operation of the rules available in English, French, and Spanish (OECD, 2023[11]). The standardised GloBE information return was released, which incorporates transitional simplified reporting requirements.

Box 3.3. Towards a widespread implementation of the Global Minimum Tax

An increasing number of jurisdictions are taking steps towards implementing the GloBE Rules into domestic law, with the Global Minimum Tax (Income Inclusion and/or Domestic Minimum Top-up Tax) starting to apply from the beginning of 2024. Due to the interlocking nature of the GloBE Rules and the backstop mechanisms incorporated in the rules, there is a strong incentive for jurisdictions to implement them as well as a domestic minimum top-up tax.

Table 3.9. Status of Pillar Two implementation

Status	Jurisdiction
Legislation expected to be effective as of 2024 (incl. EU directive with no deferral, draft legislation, stated intention)	AUT, AUS, BRB, BEL, BGA, CAN, CHE, CYP, CZE, DEU, DNK, ESP, FIN, FRA, GBR, GIB, GRC, HRV, HUN, IRL, ITA, JPN, KOR, LIE, LUX, NLD, NOR, POL, PRT, ROU, SVK, SVN, SWE, VNM, ZAF, ZWE
Legislation expected to be effective as of 2025 (incl. enacted or draft legislation, stated intention)	GGY, HKG, IMN, ISL, JEY, MYS, NZL, SGP, THA
EU directive (deferring implementation in whole)	EST, LTU, LVA, MLT
Considering (legal framework in place)	ARE, IND, MUS, QAT
Other steps	ARG, BHS, BMU, BRA, COL, NGA, UKR

Note: The information in Table 1 above is current as of April 2024

The challenge of reducing tax avoidance continues to be tackled through the wider OECD/G20 BEPS programme

Further progress was made on the implementation of the OECD/G20 BEPS package in 2023. The OECD/G20 BEPS package was delivered in October 2015 and includes 15 Actions aimed at addressing tax planning strategies that artificially shift profits to low or no-tax jurisdictions.

The Multilateral Convention to Implement Tax Treaty Related Measures to Prevent BEPS (BEPS MLI) has taken effect for approximately 1,400 tax agreements (OECD, 2023[12]). The BEPS MLI implements tax treaty-related BEPS measures to address hybrid mismatch arrangements (BEPS Action 2), to prevent treaty abuse (BEPS Action 6), to prevent the artificial avoidance of permanent establishment status (BEPS Action 7) and to improve dispute resolution mechanisms (BEPS Action 14). As of 1 March 2024, 102 jurisdictions have joined the BEPS MLI, out of which 85 have deposited the instrument of ratification, acceptance, or approval. Overall, the BEPS MLI now covers around 1,900 bilateral tax agreements. This includes around 1,400 agreements that have already been modified by the BEPS MLI and around 500 additional agreements that will be modified once all Signatories ratify the BEPS MLI. These figures continue to increase as additional jurisdictions sign and ratify the BEPS MLI.

Successive BEPS Action 6 peer review reports demonstrate a broadly successful implementation of the minimum standard on treaty shopping by jurisdictions that are members of the Inclusive Framework. As one of the four minimum standards, the BEPS Action 6 minimum standard identified treaty abuse, and in particular treaty shopping, as one of the principal sources of BEPS concerns. Over the years, the BEPS Action 6 peer review reports have revealed sustained and steady progress in the implementation of the BEPS Action 6 minimum standard across the treaty networks of jurisdictions that are members of the Inclusive Framework. As revealed in the latest peer review report, the number of agreements concluded between members of the Inclusive Framework that were compliant with the minimum standard increased by around 30% in 2023 relative to 2022 (OECD, 2023[13]). Moreover, at this stage, most agreements

concluded between members of the Inclusive Framework are either already compliant with the minimum standard or will shortly come into compliance. Consistent with previous years, the sixth Peer Review Report confirms the importance of the BEPS MLI as the principal tool used by jurisdictions to implement the BEPS Action 6 minimum standard (OECD, 2023[13]).

In line with Action 13, automatic exchanges of country-by-country (CbC) reports have continued to increase. Action 13 requires the ultimate parent entity of an MNE group to file a CbC report in its jurisdiction, providing information such as turnover, profits, employees, and taxes paid for each of the jurisdictions in which it operates. The tax administration of the country where the ultimate parent entity is a resident, exchanges this data with the tax authorities of other jurisdictions. In September 2023, the Inclusive Framework concluded the sixth peer review report, covering 136 jurisdictions. The implementation of CbC reporting has made considerable progress since 2015, with more than 3 300 bilateral relationships for CbC exchanges now in place between 89 jurisdictions.

Action 14, which deals with mutual agreement procedures (MAP), has also seen significant progress. Action 14 aims to improve mechanisms for the resolution of tax-treaty related disputes. A new Peer Review Assessment Methodology was agreed by the Inclusive Framework to increase the efficiency of resolutions for double taxation disputes, as well as the reporting of additional data points for MAP statistics (OECD, 2023[14]). Advance Pricing Arrangement programmes will be reported in annual statistics and published online from 2024, which should facilitate the aim of achieving compliance with the Action 14 minimum standard.

Beyond BEPS minimum standards

First launched in 2019 as a key outcome of Action 11, the fifth edition of the Corporate Tax Statistics report was published in 2023 covering over 160 jurisdictions. This new edition includes CbC report data on the activities of more than 7,400 MNEs based on reporting from more than 50 jurisdictions, and two years of data (2019 and 2020) to increase the timeliness of the data series. The data, which continues to show that corporate income tax remains an important source of revenue for most countries (especially for developing and emerging market economies), also shows the persistent risk of multinational tax avoidance across countries and continues to provide evidence of the need to protect countries' tax bases.

3.4. Taxes on goods and services

Targeted temporary VAT rate cuts for certain products continue to be used by many countries in response to rising prices. Following the sharp rise in energy prices starting in 2021, various jurisdictions have lowered VAT rates on energy products, allowing governments to enact visible policy measures that could have an immediate impact on household budgets. Temporary VAT rate reductions on some items are also used to cushion the impact of price increases or to support certain sectors considered the most vulnerable to economic shocks.

Almost all jurisdictions continue to apply a wide range of reduced VAT rates and exemptions, mainly to address equity concerns. Countries tend to apply reduced rates or exemptions in areas considered essential, including food, healthcare, education and public services**.** Additionally, jurisdictions also apply reduced VAT rates in sectors where governments sought to encourage consumption, in particular in sports, tourism and culture.

There was also a notable trend of jurisdictions to use the VAT system to encourage the transition to lower carbon economies. VAT exemptions and (temporary) reduced rates were applied to a range of goods and services identified as promoting environmental sustainability, including electric and hydrogen vehicles, and products associated with low-carbon domestic energy production. Many of these VAT

exemptions and reduced rates (as well as subsidies) are temporary and adjusted in scope and level to market conditions and to address foregone revenue and equity concerns.

In contrast to previous years, six jurisdictions have also increased their standard VAT rate and continue to modernise their VAT system aligned with international standards. VAT reforms to address the challenges of an increasingly digitalised economy continue to be amongst the most impactful changes made by jurisdictions to VAT policy and its administration**.** To date, close to 100 jurisdictions worldwide (including many middle- and low-income economies) have implemented reforms based on the OECD VAT standards to collect VAT on inbound supplies from non-resident vendors, including Kenya and the Republic of North Macedonia (hereafter 'North Macedonia'), with over 30 more in the process of implementing, or considering doing so. Brazil has also undertaken a systemic reform to replace its current complex indirect tax system with a harmonised VAT, that is based on international standards.

In an ongoing effort to raise revenues and promote public health by discouraging the consumption of certain products or activities, several high and upper-middle-income countries have increased their health-related excise taxes, especially on tobacco, alcoholic beverages, sugar sweetened beverages (SSBs), and gambling. Sixteen countries have increased their excise tax burden on tobacco products. Seven countries increased their excise taxes on alcohol. Two countries introduced new taxes on SSBs. While only three countries have made strategic reductions in alcohol excises to support businesses.

On average revenues from taxes on goods and services account for more than 30% of total tax revenue

High-, middle, and low-income countries continue to heavily rely on tax revenue from taxes on goods and services as their principal source of revenue. Within this category, VAT is the main contributor to revenues. On average, in 2020, VAT accounted for 20.2% of total tax revenues across OECD countries and yielding nearly three times more revenue than excise duties. Excise duties, which mainly target specific goods and services, contributed to 6.9% of total tax revenues in the same year.

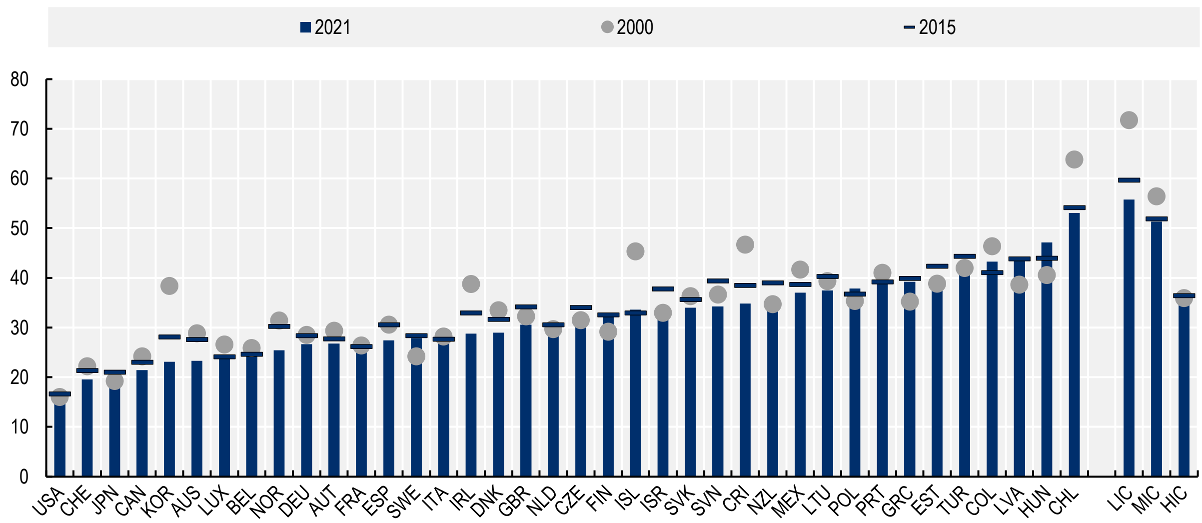
The majority of jurisdictions covered use reduced VAT rates as policy instruments

Most OECD countries apply reduced VAT rates to a wide range of goods and services. Apart from Chile, all OECD countries that operate a VAT apply one or more reduced rate to pursue various policy objectives (OECD, 2022[15]). More than half of the countries surveyed in this report (47 of 90) have reported VAT rate changes in 2023, including 26 VAT rate increases and 85 decreases.

The following paragraphs first cover temporarily reduced VAT rates for specific goods and services, which were introduced to counteract price increases, as well as temporarily reduced rates that were implemented to support certain sectors. Next, the subsection discusses the use of non-temporary reduced VAT rates on goods and services in general, in response to natural disasters, and to promote environmental objectives, in that order.

Figure 3.6. Revenues from taxes on goods and services

Tax revenues from taxes on goods and services as a percentage of total tax revenues



Note: Tax revenues from taxes on goods and services refer to tax category 5000 under the OECD classification of taxes. Tax revenues are the sum of taxes collected by all levels of government. See Revenue Statistics Interpretive Guide for more detail. The low- (LIC), middle- (MIC), and high-income country (HIC) averages are representative of the 116 jurisdictions that provide tax revenue data to the OECD.
Source: OECD Global Revenue Statistics Database

StatLink https://stat.link/xz1kin

Countries continue to employ temporary reduced VAT rates as a strategy to mitigate price increases on specific products

Targeted temporary VAT rate reductions continue to be used by many countries to support households with elevated energy prices. As countries were affected by increases in energy prices since 2021, many of them have notably introduced (most often temporary) reductions in the VAT rate applied to energy products as a way for governments to implement visible policy measures that could have an immediate impact on household budgets. Policymakers most commonly reduced the VAT rates applied to electricity, natural gas and collective heating, though decisions also depended on countries' relative fuel mix. The duration of these temporary measures was initially set to around a few months in most countries, but as prices continued to remain elevated, VAT rates were cut further by some countries and their duration was frequently extended. Such VAT cuts were often part of wider policy packages that included excise rate cuts, PIT and CIT provisions as well as non-tax measures such as subsidies, transfers, and price caps.[11]

Barbados, Croatia, Ireland, Portugal, Spain, and North Macedonia, for example, all extended or re-introduced reduced VAT rates. Barbados further extended the application of its reduced VAT rate of 7.5% (from 17.5%) on the supply of the first 250 Kw/h electricity to households until March 2024. The reduction was first introduced in 2022. Croatia further extended the application of its reduced VAT rate of 5% (down from 25%) on natural gas, residential heating, and firewood until 31 March 2024. In Ireland, the reduced VAT rate on the supply of gas and electricity (9%, down from 13.5%), which was temporarily introduced in May 2022, has been extended until the end of October 2024. Portugal further extended its reduced VAT rate of 6% on the supply of electricity to households within certain consumption limits until the end of December 2024. In Spain, the temporary reduction of the VAT rate on certain electricity supplies (from 10% to 5%) and natural gas and firewood (from 21% to 5%) introduced in 2022 was further extended

until June 2024. In March 2024, North Macedonia introduced again a temporary reduction of the VAT rate, from 18% to 10%, on the import and supply of energy fuels.

Temporary VAT rate reductions are also used to cushion the impact of price increases on some basic food items. Bulgaria (from July 2022 to June 2024), Peru (from May 2022 to July 2023), Poland (from 1 February 2022 to 31 March 2024), and Spain (from January 2023 to July 2024) apply a 0% VAT rate on selected basic food items, where Spain also reduced its VAT rate from 10% to 5% on cooking oil and pasta.

Some jurisdictions made VAT rate reductions permanent or introduced open-ended measures. Belgium, which had introduced a temporary reduction of the VAT rate (from 21% to 6%) on electricity and natural gas in April 2022 decided to make this reduction permanent as of 1 April 2023. A number of countries have also introduced reduced rates on some energy products without setting a time limit for their application. Albania introduced a 0% VAT on import of fuel wood and Anguilla introduced a 0% VAT on diesel, gasoline and liquid petroleum gas (LPG).

Table 3.10. VAT rates changes in 2023

	Reduced rates							Standard rates
	Energy Heating Fuels	Food Basic essentials Health	Hotels Restaurants Tourism Transport	Culture Sport Printed & e-publications	Environmental sustainability	Mitigating effects of natural disasters/ pandemics	Other	
Temporary decrease	BRB, BEL, BUL, FIN, DEU, HRV, IRL, ITA, KEN, MKD, PRT, SPA, UKR	BUL, COD, PER, POL, SPA	AGO, BUL, FIN, DEU, LTU, PER, URY	BUL, LTU, PER	AUT, BRB, BEL, GBR, ISL, PRT	MEX, TUR, URY	POL, PRT, TUR	
Open-ended decrease	ALB, AIA, BEL	GBR, GRE, IRL, ITA, KEN, MUS, MKD, SPA	AUT, GRE, HUN, LTU, MUS, SVK, URY	HUN, IRL, LVA, LTU, MUS, MKD, PRT, SVK	DEU, IRL, ISL, JAM, LTU, NET, PRT, TUR	AGO	ALB, BEL, COD, GRE, IRL, JAM, LCA, ROU, SVN, URY	
Temporary increase							NET	
Open-ended increase		MKD, ROU, SVK, TUR	EST, ROU	EST, NOR, ROU	NOR, ROU		CHE, CZE, ISL, LUX, SWE, NET, TUR	CHE, COL, EST, LUX, MDV, SGP, TUR

Note: For the purposes of this table, reduced VAT rates include all rates lower than the standard rate, including zero rates applied to domestic sales. This table includes VAT rates changes adopted in 2023 either as an extension of temporary changes implemented in 2022, new rates implemented in 2023, or adoption of changes to be implemented in 2024. Canada: data in this table only include changes relating to the federal GST. Specific changes to the provincial share of the Harmonised Sales Tax, to QST or to provincial or local sales taxes are not covered.
Source: OECD Annual Tax Policy Reform Questionnaire

Meanwhile, there were also a number of jurisdictions that scaled back their temporary reduced rates. In January 2023, Barbados ended its cap on VAT levied on gasoline and diesel, which was initially introduced in March 2022 for six months but extended until 31 January 2023. Bulgaria ended its reduced VAT rate of 9% on the supply of natural gas and district heating and reapplied the standard rate of 20% in July 2023. Finland also put an end to the application of a reduced VAT rate on electricity (10% instead of 24%) on 30 April 2024. Germany is re-applying the standard VAT rate of 19% on natural gas and district heating, after having had temporarily reduced the rate to 7% between October 2022 and March 2024.

Kenya abolished its reduced VAT rate of 8% (down from 16%) for LPG including Propane, introduced in June 2022, in July 2023. In Italy, the temporary reduction in the VAT rate to 5% on gas for civil and industrial uses came to an end, as planned, three months after its introduction in January 2023. Ukraine also ended its temporary reduced VAT rate of 7% on some fuels such as motor gasoline, heavy distillates, and liquefied gas as well as crude oil and oiled products derived from bituminous rocks in July 2023.

Jurisdictions also temporarily cut VAT rates to support specific sectors

To support sectors and industries significantly affected by economic volatility, several countries continued to introduce (or extend) temporary VAT rate reductions. This approach is designed to stimulate consumption in areas of the economy that were particularly vulnerable to past economic shocks, such as hospitality, restaurants, and tourism. Angola, Bulgaria, Germany, Lithuania, Peru and Uruguay extended their temporary reduced VAT rates implemented in 2022 on a number of tourism and restaurant-related sectors. Angola extended the application of the 7% reduced VAT rate to hotel and catering services to the end of 2023 and 2024 respectively. Bulgaria extended its 9% reduced rate to specific tourist, restaurant, and catering services until end of 2024. Germany and Lithuania extended the application of their respective reduced VAT rates (7% and 9%) on meals in restaurants until the end of 2023. Peru temporarily reduced the VAT rate for small- and medium-sized hotels and restaurants from the standard 18% to 10%. Uruguay lowered the VAT rate for certain tourism operations (to 9% or 0%) until April 2024 and mandated the use of electronic payment methods for those services to further encourage the digitalisation of the VAT.

Temporary VAT rate reductions have also been adopted in the agricultural sector. Poland announced the temporary application of the reduced rate of 8% to a number of agricultural products (from January 2023 to December 2024). Meanwhile Portugal extended the application of its 0% VAT rate on soil improvers and animal feed (from April 2022 to December 2024).

In addition to the agricultural sector, temporary VAT rate cuts have also been adopted in other areas. Finland temporarily decreased its VAT rate on passenger transport from 10% to 0% between January and April 2023. Türkiye extended the 0% VAT rate applied to projects related to urban rail transportation systems until December 2028. Lithuania extended the application of its 9% reduced rate to sporting activities for the first half of 2023, and Bulgaria extended its reduced rate of 9% on sport facilities until mid-2024.

The trend of applying non-temporary reduced VAT rates to a broad range of goods and services continued, following a long-established trend

In 2023, countries continued to expand the use of reduced rates to alleviate the tax burden on products considered basic necessities. Commonly, reduced VAT rates are applied to such goods and services, with the stated objective of addressing equity concerns (OECD, 2022[15]). The UK aligned the 0% VAT treatment of prescription drugs under novel prescribing regimes with those prescribed by doctors. In the health sector, Italy and North Macedonia joined numerous jurisdictions in lowering their VAT rates menstrual hygiene products to their 5% reduced rate, while the United Kingdom and Ireland extend its zero rate to include additional menstrual hygiene products. Various other health-related products have also been zero-rated such as medical grade silicone in Mauritius and automated external defibrillators, hormone and nicotine replacement products, and Covid-19 tests in Ireland. Spain lowered VAT rates from 10% to 4% on hygiene products, condoms, and other non-medicated contraceptives. Greece reduced the VAT rate from 23% to 4% on modifications to private or public buildings to enhance accessibility for individuals with disabilities. Kenya reintroduced the zero-rate on supplies directly and exclusively used in constructing and equipping specialised hospitals, as well as on certain pharmaceutical products.

The tourism and catering industry has also benefited from new reduced rates. Greece now applies a reduced rate of 13% to goods and services provided by restaurants, coffee shops, and similar businesses, excluding alcoholic beverages. Hungary decreased the VAT rate on hop-on-hop-off tours to 5%, and Lithuania indefinitely extended the temporary reduced rate of 9% to accommodation services and attendance at all types of artistic and cultural events. Mauritius exempted event organisers from paying VAT on accommodation costs instead of being eligible for VAT refunds. The Slovak Republic introduced a lower VAT rate of 10% on restaurants, ski lifts and resorts, and aquaparks. Uruguay applied a 0% VAT rate on supplies to non-resident tourists in certain activities.

Countries continue to support the media industry, continuing a trend particularly seen since 2016. Hungary implemented a 0% VAT rate for daily newspapers, and Ireland did so for standard and electronic newspapers, and electronic and audio books. Lithuania reduced its VAT rate from 21% to 9 % on electronic books and electronic non-periodic publications, while North Macedonia reduced the VAT rate from 18% to 5% on digital books. Other cultural products have also benefited of new reduced VAT rates such as art works (now taxed at 5% in Hungary) and musical instruments (zero-rated in Mauritius). Portugal applied its reduced 6% VAT rate on shows, theatres, fairs, amusement parks, concerts, museums, cinemas, and similar events. Peru further extended the application of its 0% VAT to books and other publications until the end of 2025.

The agricultural sector has traditionally received support from various governments through special schemes and reduced rates. In 2023, Jamaica introduced a VAT exemption on the importation of horses, cows, and pigs to encourage economic diversification, improve local food security and encourage employment in rural areas. Uruguay introduced a VAT refund procedure for gasoil consumed by a number of VAT-exempt agricultural producers, and Greece applied a new reduced 13% rate on agricultural machinery.

Reduced VAT rates have also been introduced in a number of other areas such as construction where the VAT rate was reduced to 6% in Belgium for demolition and reconstruction work and 0% in Saint Lucia for certain building materials. Romania reduced its threshold for applying the reduced VAT rate of 5% on housing supplies from RON 700 000 (EUR 141 000) to RON 600 000 (EUR 121 000). Canada raised its rebate of the GST or the federal portion of the Harmonized Sales Tax on new rental housing from 36% to 100% to incentivize the construction of residential properties for long-term rental, and four provinces have announced they will be mirroring the federal rebate.

Others similar VAT reforms include relief for cross-border passenger transport by train (0% in Austria), the supply and import of goods for projects financed by donations or grant agreements concluded between the government and foreign donors (0% in Albania), baby diapers and children’s car seats (5% in Italy), and firefighting equipment (5% in Slovenia). Additionally, Kenya also exempted supplies to meal programmes for schools and Latvia introduced a VAT exemption on fees for participation in sport competitions or classes organised by associations or foundations. Finally, the Slovak Republic introduced a lower VAT rate of 10% on sport facilities and Ireland increased its Charities VAT Compensation Scheme.

Jurisdictions also used reduced VAT rates as support measures in response to natural disasters

VAT exemptions of products used to combat the Covid-19 pandemic were intended to be temporary and have almost universally been withdrawn. However, in 2023 new VAT relief measures were introduced in response to other disasters. Angola, for example, applied a 0% VAT rate on the import of goods intended for philanthropic ends or to mitigate the effects of natural disasters recognised by the tax administration. Mexico also introduced VAT relief for supplies provided between October 2023 and February 2024 in zones affected by Hurricane Otis. Uruguay applied a 0% VAT rate on the supply of mineral waters and sodas for the duration of the water emergency situation which began in June 2023. Türkiye offered VAT relief for the supply of goods and services made to professional organisations for the

construction of dwellings donated to victims of the earthquakes until the end of December 2024. This VAT relief also applied to education and health facilities and buildings delivered to social security institutions, until 31 December 2028. Additionally, the supply of prefabricated buildings and containers were also subject to the reduced VAT rate of 1% until 31 December 2023.

Jurisdictions are increasingly using their VAT systems to promote environmental sustainability

Continuing a trend seen in recent years, a number of jurisdictions have lowered the VAT rates for particular sectors or goods and services to support the transition to a lower carbon economy. In 2023, 13 countries introduced permanent or temporary reduced VAT rates to goods and services such as electric and hydrogen vehicles and products associated with low-carbon domestic energy generation in an effort to reduce greenhouse gas emissions.

Several countries applied reduced VAT rates to residential energy generation initiatives to promote sustainable energy sources. Austria (temporarily), Germany, Ireland and the Netherlands (permanently) introduced zero rates for the purchase and installation of solar panel systems. Portugal reduced the VAT rate applied to solar panels, solar water heaters and heat pumps to the 6% reduced VAT rate. In Belgium the application of the 6% reduced VAT rate for solar panels and solar water heaters introduced in 2022 ended on 31 December 2023 while the application of the reduced rate on heat pumps was extended until the end of 2024. Portugal also applied its lower 6% reduced VAT rate to biomass fuels (temporarily) and bicycles (permanently). Barbados and Jamaica introduced VAT exemptions, the former for two years on residential generators from April 2022, and the latter, permanently, on the importation of batteries used for solar panels. The United Kingdom extended the scope of the 0% VAT rate on the supply and installation of energy saving material (heat pumps, solar panels, insulation, etc.) in residential accommodation and charity buildings, which will revert to the reduced 5% rate in April 2027.

Reduced rates were also implemented for electric, hybrid, and hydrogen vehicles. Barbados temporarily exempted EVs from VAT until March 2024. Iceland offers a permanent exemption for new electric and hydrogen cars, and a temporary exemption for used ones, as well as for bicycles and green motorbikes. Norway decided to limit the VAT exemption on EVs whose purchase price does not exceed NOK 500 000 (EUR 44 000). Lithuania offered businesses a more extensive input VAT deduction on EVs if the value of the car does not exceed EUR 50 000. Türkiye temporarily exempted some engineering services provided to businesses producing EVs in the country to boost this industry and ultimately reduce greenhouse gas emissions.

Many of the exemptions and reduced rates (as well as subsidies) in this area are temporary and governments regularly adjust their scope or level to market evolutions and to address foregone revenue and equity concerns.

In contrast, some countries increased their VAT rates to mobilise revenues

Some jurisdictions also raised their VAT rate on specific areas of the economy

While several countries have implemented reduced VAT rates to support environmental, economic, or social goals, others have increased VAT rates on certain sectors or goods and services in 2023, primarily aiming to raise more revenues and simplify their VAT systems. North Macedonia increased the reduced VAT rate from 5% to 10% for luxury food products to restrict the application of the lower rate to food items mostly consumed by low-income families. Romania introduced a wide range of VAT increases, including a rate hike for sugar-sweetened beverages (SSBs) from 9% to 19%, an increase from 5% to 9% for restaurants, catering services, and hotel accommodations. It also announced further VAT rate increases for 2024, raising rates from 5% to 9% on goods and services like solar panel installations,

heat pumps, sports event access, and high-quality food. Rates will also jump from 5% to 19% for sports facility use and tourism transportation, and from 9% to 19% for high-sugar products, in an effort to streamline VAT exceptions.

The Slovak Republic abolished its reduced VAT rate of 10% for alcoholic beverages in restaurants, which are now taxed at the standard 20% rate. Sweden increased the VAT rate on certain repair services from 6% to 12% and Türkiye removed a number of cleaning and hygiene products from eligibility for the reduced rate, which are now subject to the standard rate of 20%. Estonia announced its intention to increase its reduced rate on accommodation services from 9% to 13% and on newspapers and magazines as well as electronic publications from 5% to 9% in January 2025. The Netherlands will also abolish the reduced VAT rate on certain agricultural inputs starting January 2025.

Six countries increased their standard VAT rates

To raise revenues, six countries increased its standard VAT rate. Estonia raised its standard rate from 20% to 22% to rebalance the general budget. Türkiye increased its standard rate from 18% to 20% and its reduced rate from 8% to 10% as of 10 July 2023. Luxembourg ended the temporary reduction of its standard and reduced VAT rates, which had been decreased from 17% to 16%, 14% to 13%, and 8% to 7% respectively in January 2023 to stimulate consumption amid rising inflation. Maldives raised its standard VAT rate from 6% to 8% and its ‘Tourism VAT’ rate from 12% to 16% in January 2023. Singapore introduced a stepped increase of its standard GST rate, by 1 percentage point. to 8% from January 2023 and again to 9% from January 2024. Switzerland has increased its standard and reduced VAT rates in January 2024 from 7.7% to 8.1%, 2.5% to 2.6% and 3.7% to 3.8% respectively to fund the Old Age and Survivors Insurance (OASI) as part of the reform adopted by the general population in 2023.

A number of countries have adjusted their VAT base mainly to increase their tax revenues and modernise their systems

Jurisdictions are continuing to adapt their VAT systems to better capture economic activity in the digital economy

Countries continue to introduce VAT reforms to address the challenges of an increasingly digitalised economy. The transformation of economies by globalisation and digitalisation has created considerable pressure on VAT regimes since traditional VAT rules and collection mechanisms lack effectiveness to collect the appropriate amount of VAT on the growing online sales by non-resident merchants to private consumers. VAT reforms will not only strengthen domestic resource mobilisation but also minimise competitive distortions between foreign online sellers and local physical businesses.

To address these challenges, the OECD has delivered a set of internationally agreed standards and recommended approaches for the VAT treatment of international trade, with a particular focus on digital trade. These solutions were developed through the Global Forum on VAT and reflect consensus among more than 100 jurisdictions worldwide. These include the International VAT/GST Guidelines (OECD, 2017[16]) as well as a series of implementation guidance. To date, close to 100 jurisdictions worldwide (including many low- and middle-income economies) have implemented reforms based on these VAT standards and subsequent implementation guidance, with over 30 more in the process of implementing, or considering doing so.

In 2023, several countries updated their VAT legislation to better capture digital and telecommunication services. Kenya introduced laws mandating non-resident digital suppliers to register for VAT on sales to residents, regardless of whether they were below the KSH 5 million turnover threshold and clarified that service exports are zero-rated. Japan announced it will introduce a "Platform Taxation" regime in 2025, requiring digital platforms whose transaction value with foreign suppliers exceeds JPY 5

billion (EUR 30 million) to collect and remit VAT on inbound digital services.. North Macedonia announced it will require non-resident digital and telecommunication service providers to charge VAT from 1 January 2024. The Bahamas announced it will hold owners of rental homes accountable for charging VAT regardless of whether they use a digital marketplace platform.

While most of these reforms thus far have been aimed at the collection of VAT on online sales of digital services and products, countries are increasingly considering further reform to ensure that VAT is also collected effectively on online sales of low-value imported goods. To date, 33 jurisdictions (Australia, the members of the EU, Malaysia, New Zealand, Norway, Singapore, and the United Kingdom) have implemented reforms for low-value imported goods. Chile has recently introduced a bill to Congress aimed at adopting such a reform, making it the first country in the LAC region to take concrete steps in this direction. To further support jurisdictions interested in implementing these internationally agreed standards, the OECD, together with the World Bank Group, has developed a series of regional Digital VAT Toolkits (OECD/WB/ATAF, 2023[17]).

A set of jurisdictions also introduced targeted VAT base broadening measures

To broaden their VAT bases, several countries have recently revised VAT policies on specific goods and services. Canada clarified that payment card clearing services are taxable under the GST. Colombia will end its tax-free days from 1 January 2023, previously allowing certain products to be sold VAT-free for three days a year. Greece reduced the number of exemptions for short-term property leases and applies a 13% VAT if the properties are leased by legal entities or individuals owning three or more properties. Norway abolished the VAT zero-rate on electronic news services. Ireland is reducing the "Farmers flat-rate" VAT compensation for unregistered farmers, with a gradual decrease to 4.8% by 2024. Lastly, The Bahamas extended a 10% VAT rate to real estate transfers above BSD 100 000 (EUR 91 500), aligning with efforts to enhance tax revenue through base broadening measures.

Only a small number of jurisdictions implemented policy measures to selectively narrow the VAT base by exempting specific goods and services from VAT. Barbados exempted certain studios and film equipment rentals to boost its film industry. Germany expanded its exemption for the administration of certain funds. Mexico introduced a preferential VAT regime for businesses that establish their operations in specific areas (PODEBIS or “Development poles”). Türkiye granted VAT exemptions on certain construction supplies until the end of 2025 and specific R&D and innovation supplies until the end of 2024. The United Kingdom expanded the exemption for medical care services supervised by healthcare professionals to pharmacists.

Seven countries increased or planned to increase their VAT registration thresholds

To alleviate compliance costs for small suppliers and reduce the administrative burden on tax authorities, seven countries have increased or announced plans to increase their VAT registration thresholds. Czechia and Bulgaria doubled their VAT registration thresholds to CZK 2 million (EUR 80 000) and BGN 100 000 (EUR 51 000), respectively, and Bulgaria is planning a further increase to BGN 166,000 (EUR 85,000) by 2025. Portugal also adopted a plan for the progressive increase of its VAT registration threshold from EUR 12 500 in 2022 to EUR 13 500 in 2023, EUR 14 500 in 2024, and EUR 15 000 in 2025. Trinidad and Tobago increased its VAT registration threshold from TTD 500 000 (EUR 67 000) to TTD 600 000 (EUR 81 000). Ireland implemented a more modest increase to its VAT registration thresholds from EUR 75 000 to EUR 80 000 for goods and from EUR 37 500 to EUR 40 000 for services. Latvia announced the increase of its VAT registration threshold from EUR 40 000 to EUR 50 000 in 2024. Sweden announced the increase of its VAT registration threshold in 2025 from SEK 80 000 (EUR 7 000) to SEK 120 000 (EUR 11 000). This follows an increase from SEK 30 000 to SEK 80 000 in 2022.

Box 3.4. Brazil is undertaking a major systemic reform

Brazil is undertaking a systemic reform to replace its current complex indirect tax system with a harmonised VAT. Currently, there are five main different consumption taxes in Brazil (PIS, COFINS, IPI, ICMS and ISS), applying to sometimes overlapping bases and at different levels of government (federal, state and municipal). The structure and different regulations of these taxes gives rise to inefficiencies, create incentives for fiscal competition among states and generate important challenges to neutrality and business compliance. The main reason for undertaking this reform was therefore not to generate additional revenue but rather to reduce distortions and compliance burdens, and thus to facilitate long-term growth.

In December 2023, the Brazilian Congress adopted a constitutional amendment establishing the foundation for the reform of Brazil's indirect tax system and its transition into a "dual" VAT system. The reform seeks to consolidate the five main consumption taxes spread across all levels of the federal system into two, establishing their overarching framework. These are a Contribution on Goods and Services, levied at the federal level, and a Tax on Goods and Services, levied at the sub-federal level and with a tax rate comprising both a state and a municipal component. These new taxes will be broad-based, destination-based, applied according to a harmonised set of rules, and of a non-cumulative nature. The reform will be introduced over a transitional period of seven years beginning in 2026. Its actual implementation will depend on the adoption of substantive legislation governing the new regime, which is expected to be introduced in the course of 2024.

Countries continue to increase health taxes to raise revenues and discourage behaviours that adversely affect both individual and public health

Sixteen mostly high-income countries have increased the tax burden on tobacco products to improve public health and raise tobacco tax revenues (Australia, Canada, Czechia, Denmark, Estonia, Finland, Ireland, Italy, Latvia, the Netherlands, North Macedonia, Portugal, Singapore, Slovenia, Sweden, and the United Kingdom). Examples include Estonia, which will continue to increase the amount of its excise tax by 5% annually from 2024 to 2026. Denmark raised its taxes on products that contain nicotine and smokeless tobacco. Ireland and Italy increased their excise taxes on cigarettes. Australia will increase its tobacco excise by 5% annually for 3 years, on top ordinary indexation. North Macedonia increased its rates on cigarettes and introduced additional excises on cigars, cigarillos, and herbal smoking products. Czechia and Finland broadened their excise tax base to include nicotine pouches. And Canada introduced a coordinated vaping taxation framework across four of its sub-national regions, which establishes and controls a common base and combined excise duty rates.

Seven countries have raised their excise duties on alcoholic beverages (Czechia, Estonia, Finland, Latvia, the Netherlands, Portugal, and South Africa). Estonia, for example, has planned a phased increase in excise duties on all alcohol products by 5% annually from 2024 to 2026 to boost tax revenues and reduce alcohol affordability. Finland adjusted its alcohol tax structure by increasing taxes on spirits and wine while reducing the tax on beer. The Netherlands increased its excise taxes on alcohol as part of the annual tax plan. Similarly, South Africa announced an increase in excise taxes on alcoholic beverages by approximately 4.9%, in alignment with inflation, aiming to sustain the targeted tax burden on the alcohol sector.

Several European countries have also introduced new excise taxes on sugar-sweetened beverages (Romania and Estonia) and increased their excises on gaming (Belgium and Czechia). Estonia announced the introduction of a new tax on sweetened beverages (SSBs) set to begin in 2025. Similarly, Romania introduced non-harmonized excise duties for non-alcoholic beverages with higher sugar levels,

establishing a tiered tax rate based on the sugar content, to further discourage the consumption of sugary drinks.

Four countries (Iceland, the Netherlands, the United Kingdom, and Canada) decreased the excise tax burden on alcoholic beverages in order to support businesses. Iceland significantly reduced its excise rate by 50% for beer produced by small, independent breweries to foster employment and innovation, particularly in rural areas. The Netherlands halved its proposed increase in alcohol duties, meaning the tax is still increased but by significantly less than foreseen. The United Kingdom sought to simplify the tax system and improve the efficiency of its health taxes by harmonizing the tax base based on alcoholic strength rather than volume. The United Kingdom also announced six-month alcohol duty freezes for 2023 and 2024. Canada decreased by 50% its excise taxes on the first 15 000 hectolitres of beer brewed in Canada and temporarily capped the annual inflation adjustment for excise duties on alcoholic products to 2%.

3.5. Environmentally related taxes

Over the past decade, environmentally related taxes have become a more central feature of tax policy, both as a means to incentivise the transition towards environmental sustainability and as a source of revenue. Environmentally related taxes are levied on tax bases deemed to be of particular environmental relevance. They encompass taxes that are likely to have a strong environmental impact, including taxes on agrochemicals, energy, road use, vehicles, waste, water abstraction and water pollution. Systems of environmental taxation aim at incorporating price signals into consumer decision and consequently give effect to the polluter-pays principle to favour greener over more polluting economic activities. Well-designed systems of environmental taxation in effect can thereby influence environmental outcomes by encouraging businesses and households to consider the environmental costs of their behaviour.

The ongoing cost-of-living pressures, driven by high inflation affecting essential goods and services, continued the trend of reducing taxes on energy use, a pattern first observed in 2022. Spiking energy prices experienced during the post-COVID re-opening in 2022 and exacerbated by Russia's war of aggression against Ukraine, translated into higher inflation in the broader economy in 2023. Many governments, particularly those of high-income countries (HICs), concentrated their environmentally related tax cuts on road transport fuel excise taxes and taxes levied on residential electricity consumption, to give immediate support to their constituents affected not only with energy affordability concerns but also with broader cost-of-living pressures. These environmentally related tax cuts, often introduced alongside non-tax measures such as price caps, energy price and income support, provided fast and broad relief from energy price inflation in some instances (OECD, 2023[18]). As the year progressed, policy makers grappled with the difficulties of transitioning from initial broad support measures towards more targeted policy responses as their fiscal cost rose and the risk of altering price signals that might discourage the transition to more environmentally sustainable energy use grew. Improving energy security also became a more heightened concern.

Despite general cost-of-living pressures due to high inflation, a number of largely high-income countries hiked their explicit prices on carbon in 2023 to support the transition to a low-carbon economy.[12] Most countries with existing carbon taxes continued with their scheduled carbon tax rate increases. Others broadened their environmentally related tax bases as they abolished exemptions for previously excluded fuels or sectors from their carbon taxation systems. Some countries have increased tax rates for emissions generated from ETS-exempt sectors.

Several countries increased taxes on vehicles to raise revenues, while maintaining incentives in favour of low-carbon vehicles. Revenue mobilisation has increasingly been taken into consideration by countries through increases in vehicle tax rates. Under a long-term perspective of stabilising revenue, one

country began the switch to road use charges. A few countries lowered taxes on vehicles in response to energy prices. This is combined with a continuation of tax incentives for low-carbon vehicles during the year, and some jurisdictions postponed planned removals of registration tax exemptions for EVs. Additionally, the relative advantage of EVs has been enhanced in countries where tax rates on vehicles increased, either through the tightening of environmental criteria such as CO_2 emissions or through exemptions.

Few changes were made to other environmental tax bases, which also have the potential to raise revenue and reduce environmental damage. One new tax on single-use plastic was reported to be legislated in 2023, and some were removed. Other environmentally related taxes, such as on pollution and waste, were not subject to many tax policy measures in 2023.

Environmentally related taxes and climate action

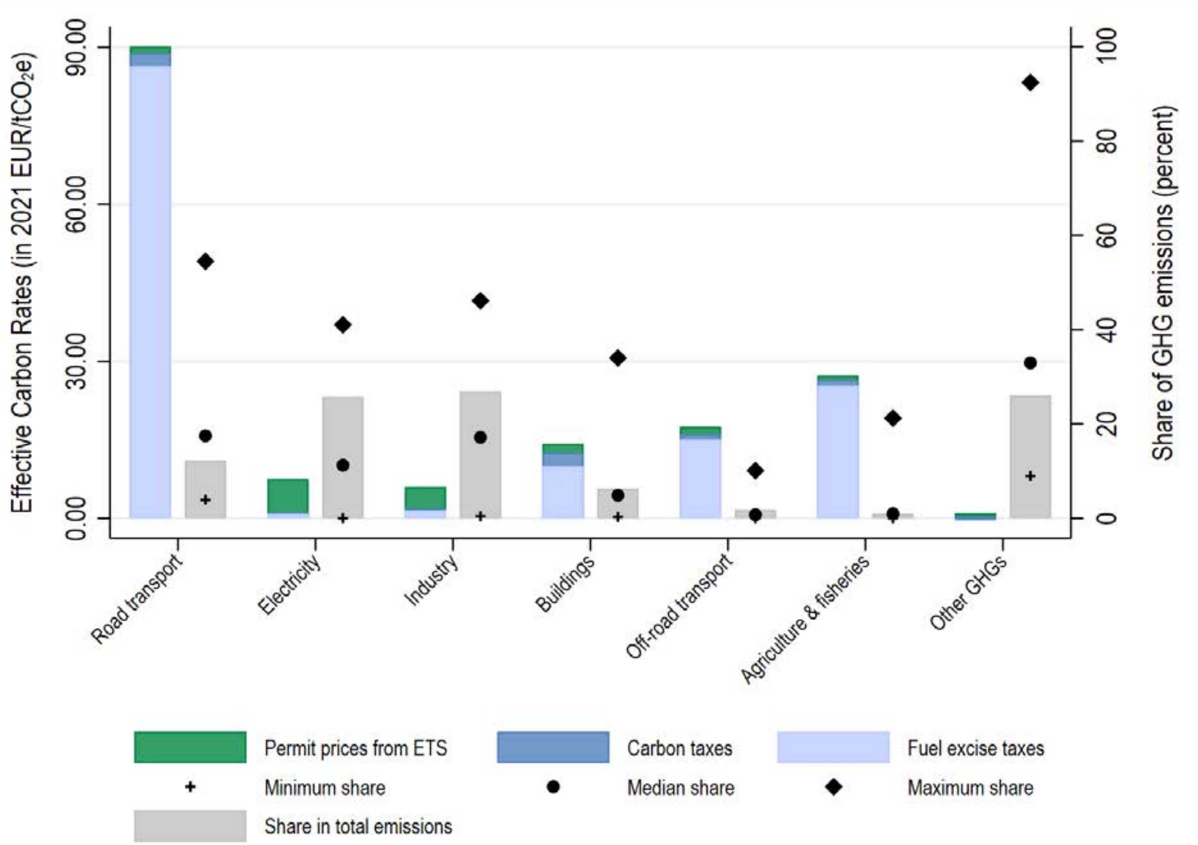
According to OECD research, in 2021 58% of the approximately 40 billion tonnes of GHG emissions remained unpriced in the 72 countries for which the OECD calculates effective carbon rates (ECRs) (Figure 3.7**).** The share of emissions with a positive price in 2023 is expected to be roughly similar to 2021 due to the energy crisis compounded by Russia's war of aggression against Ukraine, triggering responses from both governments and market participants to attenuate the impact of energy price hikes.

The distribution of ECRs is heterogenous across sectors, with the road transport sector facing the highest rates, followed by the electricity and off-road transport sectors. Variations in average price levels across sectors can be attributed to the differences in the pricing instruments employed to account for their emissions, the extent of coverage, and the variance in fuel usage among sectors (OECD, 2023[19]). Figure 3.7 shows both the price (left axis) but also the emissions (or weight) associated with each sector (right axis). ECRs were notably higher in sectors primarily covered by fuel excise taxes, particularly in road transport. Conversely, lower ECRs are found in sectors mainly covered by emissions trading systems (ETSs), such as the electricity and industry sectors. This pattern arises because fuel excise taxes are more commonly applied than ETSs as a carbon pricing instrument, and when utilised, they generally encompass a broader scope of a sector's emissions compared to ETSs.

With some exceptions, reforms to taxes on energy use tended to cut rates to mitigate the impact of energy price increases

In 2023, policy makers across the jurisdictions covered in this report, continued implementing cuts to energy taxes as part of support packages to moderate the impact of high inflation particularly on the cost-of-living pressures affecting households. This is a continuation of the trend seen in 2022 with post-COVID recovery spikes in global energy prices triggering a marked decrease in rates following several years of steady increases in taxes on energy use. Numerous measures were an extension of largely temporary measures announced in 2022 as high inflation spread from energy products to essential goods and services. A small group of mostly HICs, most with existing carbon pricing mechanisms, continued to make reforms to increase explicit carbon prices as part of ongoing climate transition efforts. However, these jurisdictions remain highly geographically concentrated, specifically in Europe (OECD, 2022[20]).

Figure 3.7. Average effective carbon prices and GHG emissions by sector, 2018-2021



Note: ECRs and its components are averaged across all GHG emissions of the 72 countries covered in the report, including those emissions that are not covered by any carbon pricing instrument. Together, emissions from the road transport, electricity, industry, buildings, off-road transport and agriculture and fisheries sectors make up CO_2 emissions from energy use. Other GHG emissions cover CH_4, N_2O and F-gas emissions as well as CO_2 emissions from industrial process. Effective price information is for 2021. Other GHG emissions data are from CAIT Climate Watch (2022[21])while the data on CO_2 emissions from energy use are based on the IEA World Energy Balances (2023[22]).
Source: (OECD, 2023[19]).

Three HICs intensified their carbon pricing mechanisms in 2023. The United Kingdom's Emissions Trading System (ETS) will include emissions from the domestic maritime sector as of 2026, as well as emissions coming from wastes and waste incineration facilities as of 2028. Hungary introduced a new carbon dioxide quota tax for emitting facilities in sectors receiving a significant CO_2 emission allocation beginning January 2023. This tax amounts to a rate of EUR 40/tCO2. Finally, the Netherlands further broadened the type of emissions covered by its carbon taxation system, with ETS-exempt emissions from the greenhouse horticulture sector now subjected to a CO_2 levy.

Five jurisdictions increased carbon tax rates in 2023 with some announcing scheduled rate rises for the future, as well as greater stringency of measures, to support national green transition and carbon neutrality plans. Austria initially increased its national carbon tax covering non-ETS sectors by 17% to EUR 35, and then adjusted the increase to EUR 32.5 in order to stabilise energy prices in2023. From October 2023, Ireland will increase its carbon tax rate for automotive fuels by 15% to EUR 56 while the increase for other fuels takes effect from May 2024. Iceland announced an increase in its carbon tax although the exact details of the increase are still unpublished. Norway announced a 19% increase on non-ETS greenhouse gas emissions with the reduced rate on waste incineration rising from 50% to 75%

of the general tax rate. Besides the rate increase, Norway also broadened its carbon tax base, with Nitrous Oxide emissions from the combustion of mineral oil now included. South Africa increased its carbon tax rate by 20%, in line with legislation for the rates to align with consumer price inflation, from ZAF 159 to ZAF 190 (EUR 9) per tonne of CO_2 in 2024. In addition, South Africa's carbon fuel levy will increase by ZAF 0.01 to ZAF 0.11/litre (EUR 0.01/litre) for petrol and by ZAF 0.03 to ZAF 0.14/litre (EUR 0.01/litre) for diesel.

On 1 October 2023, the European Union Carbon Border Adjustment Mechanism (CBAM) commenced its transitional implementation phase. The CBAM will initially apply to imports of certain goods and selected inputs, whose production is carbon intensive and at high risk of carbon leakage, such as cement, iron and steel, aluminium, fertilisers, electricity, and hydrogen. Two countries have since recorded developments in the roll-out of their national CBAM regulations. Greece has issued a first set of rules and regulations through its Independent Authority for Public Revenue, setting out customs requirements for the import of CBAM covered goods from non-EU countries. For their part, the United Kingdom has announced the implementation of its own border carbon adjustment scheme by 2027, with a stated aim of preventing the displacement of carbon emissions overseas.

Continuing the trend seen in 2022, numerous jurisdictions kept implementing reductions on energy taxes as the post-COVID surge in energy prices contributed to higher inflation and cost-of-living pressures in 2023. The vast majority of these reforms comprised temporary measures or extensions of policies put in place in 2022 and were primarily enacted in high-income European jurisdictions where fuel consumption tax rates were already high relative to other regions. Austria extended its temporary reduction of energy duty on natural gas. Germany also extended its EUR 20/MWh electricity tax refunds for eligible industries up until December 2025. Germany also raised its electricity tax refunds for eligible industries from EUR 5.13/MWh to EUR 20/MWh, initially for electricity consumed in 2024 and 2025. Sweden will apply reductions on its taxes for petrol and diesel in 2024 and 2025 respectively, with diesel taxes reduced to EU minimum tax levels. Furthermore, Sweden announced tax relief measures for agricultural fuels, with refunds now possible every quarter rather than annually, aiming to 'boost the sector's cash-flow'. The Netherlands increased reductions to its energy tax (*Energiebelasting*) applicable to both natural gas and electricity consumption by 6% to reach EUR 521.78.

A small number of HICs reduced energy taxes as a compensatory measure to encourage the deployment of either more energy efficient technologies or the uptake of low-carbon fuel technologies. The United Kingdom launched a six-year Climate Change Agreement scheme, providing participants that meet agreed energy efficiency or decarbonisation targets between 2025 and 2030 with access to reduced rates of the Climate Change Levy from July 2027 to March 2033. Finland announced a reduction of its excise duty on transport fuels in order to compensate for the price effect of the increasing distribution obligation of renewable fuels. Sweden granted reductions on energy taxes for electricity consumed for carbon capture and storage (CCS) purposes. The Netherlands launched initiatives to update the list for district heating schemes on more durable production techniques, which translates to a lower tax rate on heating fuels.

In addition to measures encouraging the improvement of energy efficiency standards, a small number of jurisdictions raised taxes or broadened tax bases on fossil fuels, primarily to promote environmental sustainability. Albania's carbon tax on coal will increase annually from 2024 up until reaching ALL 15.30/kg (EUR 0.15/kg). Latvia announced the increase of excise duties levied on diesel and kerosene used in special economic zones and free ports, as well as levying EUR 9.64/MWh to natural gas for consumers who have exceeded the *de minimis* aid ceiling. Lithuania decided that energy products and their corresponding CO_2 emissions will be subject to excise duties. Furthermore, Lithuania's government introduced a "green package" implementing excise duty reforms. Czechia removed tax exemptions for natural gas, electricity and solid fuels used in the metallurgy and mineralogy activities. The Netherlands

plans annual increases on the lower tax rates on natural gas and electricity applicable in the greenhouse and horticulture sector, until reaching regular tax rates by 2030.

Some of the jurisdictions that have increased their carbon taxes, and to a lesser extent, fuel excise tax rates, have concurrently offered relief through reductions in energy taxes. To deliver support addressing the cost-of-living crisis, HIC countries in general employed rate reductions on excise taxes only and avoided adjusting their carbon tax rates. This trend is supported by the results of Table 3.10 below where only one country, Sweden, registered a rate decrease on its carbon tax in 2023. This reflects a common concern of policy makers balancing short-run energy affordability demands and longer-term environmental sustainability priorities. However, maintaining stability of carbon prices has been shown to limit the extent to which clean investment is foregone by risk-averse investors (Flues and van Dender, 2020[23]).

Numerous countries increased taxes on vehicles to raise revenues, while maintaining incentives for electric vehicles for a limited time

Tax incentives for electric vehicles (EVs), particularly at the time of purchase, remain widespread and have been extended in several countries. Denmark delayed the increase of its registration duty for zero-emission vehicles. Ireland extended the vehicle registration tax relief for electric vehicles, now planned to end in 2025. Japan extended the special Green Policy to support the spread of cars with superior environmental performance by three years. Czechia introduced a new tax incentive for EVs offering increased PIT benefits for the private use of company EVs.

In parallel, some countries are streamlining their approach to EV incentives. Switzerland has removed the automobile tax exemption for EVs starting from 2024 to generate additional revenues. France has adjusted the eligibility criteria for EV purchase subsidies to incorporate an environmental score, aiming to ensure that incentives align more closely with environmental objectives.

Increases in taxes on vehicles were implemented in numerous countries, in order to raise revenues. Australia broadened the base of the luxury car tax to include more fuel-efficient vehicles as of 2025. Starting from 2025, Iceland will increase the annual vehicle ownership tax rates to offset significant reductions in tax revenue due to the enhanced energy-efficiency of vehicles. France has tightened its CO_2 fee for new cars, as well as increased the rates of the CO_2 emissions component of the company car tax. Lithuania revised the base of its company car tax, shifting from engine size to the power in kilowatts, which is expected to result in increased revenues.

Some reforms were implemented to adjust tax schedules to rising prices. The United Kingdom, for example, adjusted its vehicle excise duty rates to inflation.. While these increases primarily aim at rising revenues, they often have the secondary effect of enhancing the relative advantage of low-carbon vehicles due to the tax base which either incorporate CO_2 emissions or fuel efficiency, or due to exemptions for EVs.

Only a few countries enacted changes to road use taxes, with those that did primarily aiming to harmonise freight transport taxation with environmental standards and, on occasion, as a reaction to the growing electrification of vehicle fleets. Lithuania changed the tariffs of its electronic vignette for freight transport to reflect EU emissions standards. Sweden announced plans to adjust the road user charge for trucks starting in 2025 by incorporating a CO_2 emissions parameter, aligned with the Eurovignette directive. The United Kingdom reformed the heavy goods vehicles levy to better reflect the environmental performance of vehicles, including their emissions. Iceland implemented a kilometre-based tax for all types of EVs, designed to capture road use costs, with the amount set to align with the equivalent vehicle tax for petrol-powered cars.

Table 3.11. Changes to taxes on energy use

	Rate increase/Base broadening		Rate decrease/Base narrowing	
	2022	2023 or later	2022	2023 or later
Fuel taxes, sector specific:				
Agriculture	FRA[4]	NLD		SWE[1], NLD
Heating		FIN[8]	FIN[1]	NLD
Industry		LVA, CZE		DEU, ZAF[1]
Transport	ZAF, FIN	NLD, FIN[8], PRT		FIN, NOR, NZL
Fuel taxes, all sectors:	EST, NLD, ISR	ALB, BHS, LTU, PRT, FRA	ITA[1], NLD	AUT[1,2], DEU[1], ISR[1,3], NLD[1,2], SWE[1], UKR[1], NOR, KOR[1], BGR, GBR[8]
Electricity taxes	CZE, EST, NLD	DNK[1,6], FRA[3], EST, NLD, SWE[6], GBR[7], LTU	FIN[1], FRA, NLD	AUT[5], DEU[1], DNK, NLD, BGR, SWE, GBR[7]
CIT and PIT incentives		NLD		DNK[1]
Emissions:				
CBAM		GBR[9]		
Carbon tax	UKR, ZAF, NOR	AUT, IRL, NZL, ZAF, NOR, ISL, SGP, PRT, COL, NLD		SWE

Note: 1 denotes a temporary measure. For Finland, measure includes temporary increase to the exempted volume of peat used for heating. For Italy, several temporary rate reductions were issued beginning May 2022 which lasted from a few days (3 days) to several weeks; 2 denotes an extension of a temporary measure; 3 measures with an explicit mention to combat rising international energy prices or the broader cost-of-living pressures; 4 a postponed measure; 5 involves rate decrease for renewable electricity sources; 6 For Sweden, involves reduced taxes for use of electricity for carbon capture and storage use; 7 For the United Kingdom, measure combines energy efficiency improvements with low tax rate incentives. The measure effectively decreases Climate Change Levy (CCL) tax rates based on one's energy efficiency improvements with broadened criteria on applicants who can qualify; 8 involves tax related to biofuels; 9 The UK announced the implementation of its own CBAM scheme by 2027.
Source: OECD Annual Tax Policy Reform Questionnaire.

Since the rise in energy prices a few countries continued to cut tax rates for vehicles in response to affordability concerns. Finland cut its vehicle tax rates on medium and high-emitting cars aged seven years or older. The tax cut aims to offer tax relief to low-income households most affected by the rise in fuel prices. Meanwhile the United Kingdom reinstated the road use tax for heavy-duty vehicles in August 2023 after having suspended it for three years. Saint Lucia waived its import duty and excise tax on imported vehicles valued up to XCD 70 000 (EUR 23 700).

Aviation taxation, mostly implemented in EU-member countries, underwent relatively little change in 2023. The Netherlands broadened its air travel tax to include lighter aircrafts. Denmark introduced a passenger duty on flights, set to take effect in 2025, with progressive rates from DKK 50 (EUR 6.70) for short-haul flights to DKK 410 (EUR 55) for long-haul flights (when fully phased in by 2030. The objective of the tax is also to raise revenues to help finance the greening of the aviation industry.

Table 3.12. Changes to taxes on motor vehicles and other transport taxes

	Rate decrease/Base narrowing		Rate increase/Base broadening	
	2022	2023 or later	2022	2023 or later
Road transport				
Excise, import tariff and VAT / GST	MUS[EV], THA[EV], UKR[t], RWA[EV]	GBR	ISL	GBR[i]
Registration tax	JPN[t]	DNK[EV], IRL[EV], JPN[EV]	JER, ZAF	FRA, NLD
Vehicle tax	CZE[t]	FIN	ISL, GBR[EV]	AUS, FRA, ISL, LVA, NLD
Road use tax	NLD		DNK	GBR, ISL[EV], LTU, SWE
PIT and CIT incentives and subsidies	USA[EV]	CZE[EV], IRL, LVA	SWE	CHE[EV], FRA[EV]
Air transport				
Air ticket taxes	DEU[a], GBR	BRD, DEU[a]	BEL, NLD	DNK, NLD

Note: [a] denotes a pre-planned annual change, [i] a change to adapt schedule to inflation, [t] a temporary measure, [EV] a measure in favour of electric vehicles. For PIT and CIT incentives and subsidies for EV, a rate decrease or base narrowing means that the incentives or subsidies in favour of EV is increasing.
Source: OECD Annual Tax Policy Reform Questionnaire.

Other environmentally related tax bases remained largely unchanged

Taxes on plastic packaging and plastics bags are widespread, but some countries have phased them out or postponed their implementation due to inflation or successful reduction of the consumption of plastic bags. Italy suspended the implementation of its planned plastic tax for the third consecutive year and Sweden removed its tax on plastic bags as it was no longer deemed a necessary policy measure to help Sweden reach the EU target on plastic bag consumption (the tax was initially introduced in 2020). Portugal legislated a EUR 0.04 plastic tax, but the tax has not yet entered into force.

A few countries increased tax incentives and subsidies to encourage plastic recycling. Lithuania will exempt producers from the pollution tax if they fully recycle all their plastic packaging waste starting in 2025. Mauritius increased the refund for recycled PET bottles.

Changes to other environmentally related tax bases were modest. Latvia increased its natural resources tax rates and broadened the base. New Zealand increased its waste disposal tax rates for the fourth consecutive year and broadened the base.

Table 3.13. Changes to other environmentally related taxes

	Rate decrease/Base narrowing		Rate increase/Base broadening	
	2022	2023 or later	2022	2023 or later
Pollution		UKR	DNK	DNK
Plastic	ISR, ITA[p]	ITA[p], LTU[rate], SWE	COL, ESP, MDV, ZAF	LTU[base], PRT
Waste		MUS*	ESP	LVA, NZL
Other (lightbulb, tourism)			TUN, ZAF	FRA, GRC, ISL, SYC

Note: [p] measures postponed. *MUS implemented a tax refund in case of recycled plastic.

Finally, four countries introduced or increased tourism taxes to increase public revenues, and to a lesser extent, promote environmental sustainability. Tourist taxes are widely spread across the world especially in Europe. While they usually do not explicitly take environmental impacts into consideration, their revenues are often used to finance environmental preservation. Greece announced that its tourist tax rate will vary according to the type of accommodation and season. The rates will vary from EUR 1.50 per

night for one- or two-stars hotels to EUR 10 per night for houses or five-stars hotels during high season. Seychelles introduced a new tax for tourism establishments. In both cases, the taxes are meant to help finance environmental preservation. France increased its tourist tax in the capital area to finance mobility infrastructure. Iceland reinstated its hotel accommodation tax.

3.6. Taxes on property

In 2023, property tax reforms were made in three key areas: property transaction taxes, inheritance, estate and gift taxes, and recurrent taxes on immovable property. However, unlike in 2022, which saw four new net wealth tax reforms, there were no such reforms in 2023.

Some countries cited revenue-raising motivations for increasing their property taxes in 2023. These reforms included increases in immovable property transaction taxes in Australia, and the Netherlands, as well as a continued interest in tax increases on investment properties and second homes in France, and Ireland. This contrasts with the reforms observed in 2022, where governments cited equity or fairness as primary motivations and placed a stronger emphasis on broadening taxation on cryptocurrencies and introducing new taxes on high-net-worth individuals, with revenue-raising often only a secondary objective.

Tax reductions were implemented for various purposes, such as stimulating economic activity, promoting fairness, and enhancing tax certainty. Several countries cut taxes on property transactions and inheritance, estate, and gift taxes. Various policy motivations drove countries to implement these tax cuts, ranging from supporting businesses and stimulating economic activity (as seen in the United Kingdom and Greece) to simplifying the tax system (notably in Finland and the Netherlands).

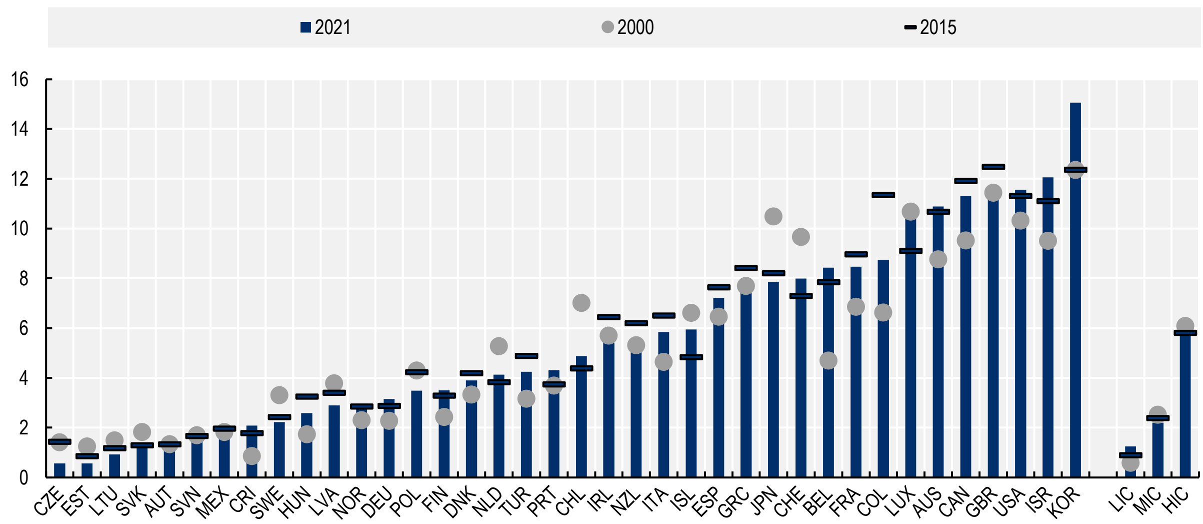
Overall, the reforms were relatively balanced between tax cuts and tax increases. This contrasts with the trend in 2022, where tax increases were relatively more common. That said, the size of these reforms was modest, and as a share of overall government revenue, property taxes remain a relatively small contributor to tax revenues for most countries (Figure 3.8).

Property taxes continue to make up a larger share of tax revenues in high-income jurisdictions than in middle- and low-income jurisdictions

Countries impose a variety of taxes on property. The reliance on property tax revenues is markedly higher in high-income countries than in middle- or low-income countries. In 2021, overall property taxes made up an average of 5.9% of total tax revenues in high-income countries, in stark contrast with 2.2% in middle-income and 1.2% in low-income countries, as illustrated in Figure 3.8. The largest share of overall property tax revenues comes from recurrent taxes on immovable property, which are typically a key source of revenue for local governments. Property transaction taxes, as well as inheritance and gift taxes, are also common. Few countries impose a tax on net wealth.

Figure 3.8. Property tax revenues as a share of total tax revenues

Property tax revenues as a percentage of total tax revenues



Note: Property tax revenues refer to tax category 4000 under the OECD classification of taxes. Tax revenues are the sum of taxes collected by all levels of government. See Revenue Statistics Interpretative Guide for more detail. The low-(LIC), middle-(MIC), and high-income country (HIC) averages are representative of the 116 jurisdictions that provide tax revenue data to the OECD.
Source: Global Revenue Statistics Database.

StatLink https://stat.link/h2msg4

Property tax increases were driven largely by revenue-raising objectives

Several countries implemented increases in recurrent taxes on immovable property. The Bahamas increased its cap on maximum property tax paid by individuals, from BSD 120,000 (EUR 110 000) to BSD 150,000 (EUR 139 000), which was a further increase from the year before when it was BSD 60,000 (EUR 55 000). Czechia effectively doubled its real estate tax rate and will introduce automatic inflation indexing of tax liabilities starting in 2025. Seychelles also doubled its recurrent immovable property tax rate from 0.25% to 0.50%. Romania introduced a new flat tax of 0.3% on residential buildings, alongside a varying tax-free threshold based on a set of criteria, including car ownership.

Like last year, in an effort to address rental and housing affordability issues, some countries introduced targeted tax increases on certain residential properties. Ireland significantly increased its new Vacant Homes Tax from three to five times the base rate of the Local Property Tax (LPT) applicable to such properties, while Australia adopted a six-fold increase in vacancy fees for future purchases of established dwellings by foreign investors[13]. Similarly, in Canada, British Colombia expanded its speculation and vacancy tax to 13 more municipalities. France also raised its residential property tax on secondary residences, with the intended effect of increasing the housing supply.

Likewise, to encourage housing affordability, Australia and the Bahamas increased transaction taxes for foreign buyers. For example, foreign purchases of existing residential property between AUD 1 million (EUR 600 000) and AUD 2 million (EUR 1.2 million) in value will result in a tax of AUD 28 200 (EUR 17 000), with the tax increasing for more expensive properties. Meanwhile, the Bahamas is imposing a 10% tax on property purchases by foreign investors.

More broadly, several countries increased their transaction taxes. Singapore balanced revenue raising and equity concerns by introducing progressive increases to stamp duty rates, increasing rates

from 1-4% to 1-6% for residential properties, and from 1-3% to 1-5% for non-residential properties. The Netherlands introduced a 4% transaction tax on indirect real estate transactions that occur when transferring ownership of company shares, as well as abolishing a tax exemption for investment funds buying their own shares. Belgium raised its registration fees on certain long-term lease transactions. Malta repealed a policy that reduced stamp duty rates in Gozo (the second-largest island in the country). Meanwhile, Finland abolished its transfer tax exemption for first-home buyers. This exemption previously meant that buyers between the ages of 18 and 39 who purchased a home did not have to pay the 4% transfer tax on houses (and 2% for apartments).

The Netherlands undertook multiple reforms to its inheritance taxes, primarily broadening the tax base and simplifying the tax rules. These changes include modifications to the general exemption for inheritance and gift taxes for the transfer of businesses; the first EUR 1.5 million is exempt, with 70% of the value above that threshold is also exempt, adjusted from the previous 83% exemption for values over EUR 1 205 871. The threshold that allowed 5% of investments to be considered as lower-taxed company assets has been removed. Rented real estate is now categorised as an investment asset, subject to higher taxation. A minimum age requirement of 21 was introduced for certain business succession-related inheritance tax exemptions, while the 36-month employment requirement for roll-over relief was abolished.

A number of countries implemented property tax cuts to support investment and lower the tax burden on households

Jurisdictions that cut immovable property taxes primarily did so to support investment or reduce the tax burden on households. The United Kingdom temporarily extended the 75% tax relief to business property tax rates for retail, hospitality and leisure sectors in 2024-25, up to a GBP 110 000 (EUR 130 000) cap, as well as freezing the small business multiplier, which is a discount on rates provided to small businesses. Other jurisdictions provided relief on residential properties, with Anguilla abolishing its residential recurrent property tax, Macau (China) reducing its tax on rental property from 10% to 8% to encourage new rental investment, and Greece offering a 10% tax credit on property taxes for individuals who insure their properties against natural disasters. In New Brunswick (Canada), eligible senior housing providers, such as nursing homes and special care homes, will now be subject to a lower recurrent tax on immovable property.

Greece, Finland, and Saudi Arabia introduced cuts to their transaction taxes. Finland lowered its transfer tax rates on real estate from 4% to 3%, on shares in housing companies from 2% to 1.5%, and on other securities from 1.6% to 1.5%. Greece also halved its transaction tax rate on listed shares to 0.1% to encourage investment. Saudi Arabia expanded the exemptions in regard to real estate transactions between related parties and between third-degree relatives (subject to certain conditions). British Colombia (Canada) introduced, in respect of purchases of qualifying new purpose-built rental buildings that are held for longer than 10 years, an exemption from the additional 2% property transfer tax on the amount of residential property values exceeding CAD 3 000 000 (EUR 2 000 000).

A few countries made cuts to their gift, estate, and inheritance taxes. As part of a broader package that also included income tax reforms, Denmark reformed its inheritance taxes, increasing the basic allowance, while abolishing additional inheritance taxes levied on siblings. Likewise, Angola reduced the rates on inheritance and donations applicable to movable property.

Ukraine introduced a series of property tax reforms in response to Russia's war of aggression. These include introducing broad exemptions for environmental, land and real estate taxes in areas affected by active military operations, including in areas that are occupied. The reforms also delegate authority to local governments, allowing them to adjust tax rates and bases for properties that may have been damaged during the war or are potentially contaminated with explosive materials.

Table 3.14. Changes to property taxes

	Base broadening/Rate increase		Base narrowing/Rate decrease	
	2022	2023 or later	2022	2023 or later
Estate duties, inheritance, and gift taxes	NLD, CHL	NLD[3]	GRC, POL	DNK[3], PRT, ANG, SAU,
Transaction taxes on movable and immovable property	IDN, CHL, JEY, NLD, PRT, TUN, USA	AUS, BEL, BHS, CAN[3] MLT, FIN, NLD, PRT[4], SGP	GBR, GRC, PRT, SAU	CAN[3], FIN, GRC, IND, KOR[4]
Recurrent taxes on immovable property	CHL, DNK, GRC, IRL[2], PRT, SGP	AUS, BHS, CAN[5], CZE, IRL, NLD, ROU, SYC	BRB, CAN, GBR[1]	AIA, CAN[5], DNK, GBR[1], GRC, MAC, SWE, UKR
Recurrent taxes on (net) wealth	ARG, CHL[1], ESP[1,2]	COL[2,4] NOR[4]		

Note: 1. Denotes a temporary tax measure, 2. Denotes a new tax, 3. Denotes reform announcement, 4. Denotes reforms introduced in 2023, but covered in last year's TPR edition, 5 denotes reform made at sub-central level.
Source: OECD Annual Tax Policy Reform Questionnaire

Notes

[1] The 90 jurisdictions covered in this report are: Albania, Andorra, Angola, Anguilla, Argentina, Australia, Austria, Bahrain, Barbados, Belgium, Bosnia and Herzegovina, Brazil, British Virgin Islands, Brunei Darussalam, Bulgaria, Canada, Cayman Islands, Chile, Colombia, Democratic Republic of the Congo, Cook Islands, Costa Rica, Croatia, Curaçao, Czechia, Denmark, Dominica, Dominican Republic, Estonia, Faroe Islands, Finland, France, Georgia, Germany, Gibraltar, Greece, Hungary, Iceland, Indonesia, Ireland, Isle of Man, Israel, Italy, Jamaica, Japan, Kenya, Korea, Latvia, Lithuania, Luxembourg, Macau (China), Malaysia, Maldives, Malta, Mauritius, Mexico, Monaco, Montserrat, Netherlands, New Zealand, Nigeria, Republic of North Macedonia, Norway, Panama, Papua New Guinea, Peru, Poland, Portugal, Romania, Saint Lucia, Saudi Arabia, Serbia, Seychelles, Singapore, Slovak Republic, Slovenia, South Africa, Spain, Sweden, Switzerland, The Bahamas, Togo, Trinidad and Tobago, Türkiye, Turks and Caicos Islands, Ukraine, United Arab Emirates, United Kingdom, United States, and Uruguay.

[2] The Universal Social Charge (USC) is Ireland's second form of personal income taxation with lower rates and a broader base.

[3] The Rent Tax Credit reduced the income tax liability of eligible renters by the amount of the credit.

[4] Registered under the Small Business Development Act, Cap. 318C.

[5] Reduced CIT rates for small and medium-sized enterprises (SMEs) are common across jurisdictions. Several countries provide reduced CIT rates for SMEs, although their design can vary significantly: some apply lower rates on the first tranche of profits, regardless of total income levels; some have reduced CIT rates for corporations with income below a certain level; and others determine eligibility based on non-income criteria (e.g., turnover or assets) instead of, or in addition to, income criteria. See OECD (2022), OECD Tax Database, Table I.2. "Sub-central personal income tax rates-non-progressive systems".

[6] Restrictions on number of employees apply.

[7] Since 2018, Latvia has adopted a distribution system whereby corporate tax is levied only on profit distributions or deemed distributions. Undistributed profits are therefore tax exempt. Deemed distributions include non-business expenses, bad debts, excess interests, etc.

[8] The credit may be equal to up to 90% of the tax liability if the requirements for employment are surpassed.

[9] They are however still allowed to invest indirectly in Dutch real estate, be that via a subsidiary or in real estate located outside of the country.

[10] Vehicles previously depreciated under the extraordinary depreciation scheme before its extension will be depreciated using the standard rules.

[11] See OECD (2022[24])

[12] Explicit carbon prices are measures designed specifically to target GHG emissions or the carbon content of fuel. See OECD (2022[20]).

[13] The vacancy fee in Australia is levied on vacant developed dwellings that are owned by foreigners and not available for rent. The measure is an incentive for foreign owners to make their residential dwelling available for rent.

References

Appelt, S., A. González Cabral and T. Hanappi (2023), "Income-based tax relief for R&D and innovation. An integrated view", *OECD Science, Technology and Industry*, No. 161, OECD, http://www.oecd.org/termsandconditions. (accessed on 7 March 2024). [3]

Climate Watch (2022), *GHG Emissions (CAIT dataset)*, World Resources Institute, https://www.climatewatchdata.org/ghg-emissions. [21]

Flues, F. and K. van Dender (2020), "Carbon pricing design: Effectiveness, efficiency and feasibility: An investment perspective", *OECD Taxation Working Papers*, No. 48, OECD Publishing, Paris, https://doi.org/10.1787/91ad6a1e-en. [23]

Hugger, F. et al. (2024), "The Global Minimum Tax and the taxation of MNE profit", *OECD Taxation Working Papers*, No. 68, OECD. [7]

IEA (2023), *World Energy Statistics and Balances*, http://www.iea.org/statistics/topics/energybalances. [22]

O'Reilly, P. et al. (2023), "Update to the economic impact assessment of pillar one: OECD/G20 Base Erosion and Profit Shifting Project", *OECD Taxation Working Papers*, No. 66, OECD Publishing, Paris, https://doi.org/10.1787/7c35a55c-en. [6]

OECD (2024), *Pillar One - Amount B: Inclusive Framework on BEPS*, OECD/G20 Base Erosion and Profit Shifting Project, OECD Publishing, Paris, https://doi.org/10.1787/21ea168b-en. [9]

OECD (2023), *BEPS Action 14 on More Effective Dispute Resolution Mechanisms – Peer Review Documents*, http://www.oecd.org/termsandconditions. [14]

OECD (2023), *Corporate Tax Statistics 2023*, OECD Publishing, Paris, https://doi.org/10.1787/f1f07219-en. [2]

OECD (2023), *Effective Carbon Rates 2023*, OECD publishing, https://doi.org/10.1787/b84d5b36-en. [19]

OECD (2023), *Harmful Tax Practices-Peer Review Results*, http://www.oecd.org/ctp/harmful-tax-practices-2018 (accessed on 17 April 2023). [4]

OECD (2023), *International tax reform: Multilateral Convention to Implement Amount A of Pillar One*, https://www.oecd.org/tax/beps/multilateral-convention-to-implement-amount-a-of-pillar-one.htm. [8]

OECD (2023), *Minimum Tax Implementation Handbook (Pillar Two)*, OECD, Paris, https://www.oecd.org/tax/beps/minimum-tax-implementation-handbook-pillar-two.pdf. [11]

OECD (2023), *OECD Economic Outlook, Interim Report March 2023: A Fragile Recovery*, OECD Publishing, Paris, https://doi.org/10.1787/d14d49eb-en. [18]

OECD (2023), *OECD/G20 Inclusive Framework on BEPS: Progress report September 2022-September 2023*, http://www.oecd.org/termsandconditions. (accessed on 7 March 2024). [12]

OECD (2023), *Prevention of Tax Treaty Abuse – Fifth Peer Review Report on Treaty Shopping: Inclusive Framework on BEPS: Action 6*, OECD/G20 Base Erosion and Profit Shifting Project, OECD Publishing, Paris, https://doi.org/10.1787/9afac47c-en. [13]

OECD (2023), *Taxing Wages 2023: Indexation of Labour Taxation and Benefits in OECD Countries*, OECD Publishing, Paris, https://doi.org/10.1787/8c99fa4d-en. [1]

OECD (2022), *Consumption Tax Trends 2022: VAT/GST and Excise, Core Design Features and Trends*, OECD Publishing, Paris, https://doi.org/10.1787/6525a942-en. [15]

OECD (2022), *Pricing Greenhouse Gas Emissions: Turning Climate Targets into Climate Action*, OECD Series on Carbon Pricing and Energy Taxation, OECD Publishing, Paris, https://doi.org/10.1787/e9778969-en. [20]

OECD (2022), *Tax Incentives and the Global Minimum Corporate Tax: Reconsidering Tax Incentives after the GloBE Rules*, OECD Publishing, Paris, https://doi.org/10.1787/25d30b96-en. [5]

OECD (2022), *Tax Policy Reforms 2022: OECD and Selected Partner Economies*, OECD Publishing, Paris, https://doi.org/10.1787/067c593d-en. [24]

OECD (2021), *Tax Challenges Arising from Digitalisation of the Economy – Global Anti-Base Erosion Model Rules (Pillar Two): Inclusive Framework on BEPS*, OECD/G20 Base Erosion and Profit Shifting Project, OECD Publishing, Paris, https://doi.org/10.1787/782bac33-en. [10]

OECD (2017), *International VAT/GST Guidelines*, OECD Publishing, Paris, https://doi.org/10.1787/9789264271401-en. [16]

OECD/WB/ATAF (2023), *AT Digital Toolkit for Africa*, OECD, https://www.oecd.org/tax/consumption/vat-digital-toolkit-for-africa.htm. [17]

Tax Policy Reforms 2024

OECD AND SELECTED PARTNER ECONOMIES

This is the ninth edition of *Tax Policy Reforms: OECD and Selected Partner Economies*, an annual publication that provides comparative information on tax reforms across countries and tracks tax policy developments over time. The report covers the tax policy reforms introduced or announced in 2023 in 90 member jurisdictions of the OECD/G20 Inclusive Framework on Base Erosion and Profit Shifting, including all OECD countries. The publication provides an overview of the macroeconomic environment and tax revenue context in which these tax reforms were made, highlighting how governments used tax policy to respond to elevated inflation levels, as well as to address long-run structural challenges.

PRINT ISBN 978-92-64-91806-1
PDF ISBN 978-92-64-53714-9

9 789264 918061